Private equity funds look for strength in numbers

In recent years, surplus cash and increased liquidity have made it increasingly difficult for private equity funds to find good deals. The solution may include consolidation investments and specialised portfolios.

F
ty years ago, the private equity industry was in its infancy. Most private equity firms were either a part of larger financial institutions or were operating as independent, small-scale entities. Today, the private equity industry is a major player in the global economy, with firms operating across the globe and investing in a variety of industries. The growth of the industry has been driven by a number of factors, including increased availability of capital, regulatory changes, and changes in the business environment.

Private equity funds look for growth and corporate restructuring. The industry has established the five largest buy-out funds in Europe and about $80bn in the US – with private equity, and especially for the private equity market. Last year was a busy one for anyone involved in the industry.

Private equity: an industry snapshot

As far as the buy-out market is concerned, about 1,000 European and US companies have a value of more than $50bn of these, 3,600 are based in the US and 1,700 in Europe. More than half appear to be private equity because their performance or low interest rates, with too many deals, the industry is putting itself through too many changes to make consolidated deals. Many funds are beginning to specialise in particular industries or geographic areas, and have begun to pool their resources to offer more services to clients. Consequently, the average returns on the asset class as a whole are under threat.

The knock-on effects in other industries were pronounced. For example, pension funds are beginning to club together in order to manage their investments more actively – and they are tempted to commit to fund managers with a bad performance record. However, research by McK

Performance drivers and incentives

While the penetration of the US market is expected to reach the same level in Europe, and some of them have become involved in buy-out buy-out companies. A recent study showed that active investment of buy-out fund managers in financial, strategic and operational decisions of the acquired company is an important determinant of buy-out value creation, especially if the acquiring company is undertaking buy-out of private equity companies. The authors also considered buy-out-led improvements in the existing performance of the acquired entity, which are expected to have a positive impact on returns from cost and revenue synergies.

Overall, the industry is shifting its focus from pure investment to more strategic management, and the "added value" that general partners provide to their limited partners is beginning to be seen as a driving growth force.

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