HarbourVest

GLOBAL PRIVATE MARKETS UPDATE

2019 ANNUAL DATA

Year-on-year change in key private markets metrics in 2019

	FUNDRAISING	INVESTMENT	EXIT ACTIVITY
US Buyout	▲	▲	▼
US Venture	▲	=	=
European Buyout	▲	▼	▼
Asia Pacific	▼	▼	▼

US BUYOUT

80% Fundraising ▲ UP

39% Exits ▼ DOWN

The US buyout market recorded a very strong 2019, with fundraising reaching a record high and investment activity at its highest level since 2007. Exit activity weakened, however, with both corporate acquisitions and dividend recap volume down. Though maintaining last year's record pace may be challenging, we expect a strong year of fundraising in 2020 with an attractive pipeline of funds in market. Elevated economic and political volatility should continue to create buying opportunities for managers, but they must remain disciplined in the face of high purchase-price multiples. On the exit side, many of the same factors that caused activity to weaken in 2019 will remain in play in 2020.

US buyout fundraising ended 2019 up 80% year-on-year at $246 billion. This reflects consistently strong demand from investors, supported by recent distributions, growing allocations to the private markets, and an influx of new entrants into the asset class. Nearly 150 buyout funds closed, including several mega funds – roughly half the capital raised was concentrated in the largest 10 funds. This helped push up the average fund size to a record high of $1.7 billion.

Total investment value rose 10% year-on-year to $247 billion in 2019, though 14% fewer deals were transacted. Even as dry powder has grown, GPs have remained disciplined in the face of high purchase-price multiples and competition from corporate and financial buyers. In this environment, better value is likely to be found in high-growth, build-up, and complex transactions.

Aggregate exit activity slipped 39% year-on-year to $200 billion, the lowest total since 2010. This decline was led by a fall in corporate acquisition volume. Multiple factors contributed, including economic uncertainty, GPs holding assets longer, longer-dated funds in market, various political risks, and the prevalence of partial rather than full exits. Dividend recap activity also slowed as many GPs take a prudent attitude to leverage, looking to preserve debt capacity for add-on deals and a potential market downturn in the near to medium term.

Sources: PitchBook; S&P; CapitalIQ. As of December 31, 2019.

US VENTURE

20% UP
Fundraising

$117M UP
Median M&A exit deal size

The US venture market had a strong 2019, with metrics for fundraising, investment, and exit activity either on par with or exceeding a record-breaking 2018. We expect 2020 to be another strong year for fundraising, with a deep pipeline of funds likely in the market from a number of highly regarded managers. Continued rapid innovation in areas such as augmented and virtual reality, artificial intelligence and machine learning, cloud services, bioengineering, and life sciences should support strong investment volumes over the year. In terms of exits, we expect multiple high-profile, venture-backed IPOs to support the continued trend of companies exiting at significant scale.

Fundraising by US venture funds rose 20% year-on-year in 2019 to $59 billion. Limited partner (LP) demand for venture capital continues to grow, fueled by increased distributions and several recent outsized winners. Fundraising by later-stage funds rose 49%. This highlights a trend of managers raising additional capital to support their winners as companies look to stay private for longer.

US venture fund investment was stable in 2019, down a marginal 2% year-on-year to $106 billion. Healthcare, software and IT together accounted for 58% of total capital invested. Growth financings continue to prove an attractive and readily available source of capital for venture-backed private companies, reflected in year-on-year rises in both expansion and later-stage investment.

Exit activity remained roughly flat. Median deal sizes for both M&A and IPO exits rose slightly, again reaching record highs. On the IPO side, a number of high-profile technology companies received strong valuations, though the number of deals fell slightly. For M&A, strategic investors remain willing to pay premium prices for the right company, but volume also declined marginally compared with 2018. Entering 2020, public and private market demand for high-quality assets remains strong, which should support robust IPO, M&A, and secondary sales activity.

Sources: PitchBook; ThomsonOne. As of December 31, 2019.

EUROPEAN BUYOUT

$88B UP
Fundraising

23% DOWN
Exits

The European buyout market was relatively stable in 2019. Investor interest remained robust, reflected in the strongest fundraising year on record, though investment moderated from a record-setting 2018 and exit activity weakened. Fundraising should maintain its momentum in 2020, driven by large buyout funds, with the trend towards greater sector specialization among funds likely to continue. Investment activity may face further drag from high pricing, which is forcing managers to be selective and focus on more resilient sectors. Exit activity remains unpredictable due to sustained market volatility, which is affecting IPO volume, but both private equity and strategic exits should stay relatively strong.

Fundraising for European buyout funds rose 27% year-on-year in 2019 to an all-time high of €88 billion, buoyed by a strong Q4. Volumes rose year-on-year across all fund sizes but especially among upper mid-market funds: Fundraising for funds targeting between €1 billion and €5 billion climbed 43% year-on-year to €27 billion. This helped push up the average fund size to nearly €1 billion.

While fundraising was strong, investment moderated in 2019 from a record high in 2018. Increased political and economic uncertainty dragged on investment activity, with volumes down 33% year-on-year to €124 billion. Corporate divestitures accounted for a notable share (40%) of deal activity. Companies are looking to streamline their operating models and strategically position their portfolios given concerns over economic prospects and the high pricing environment.

As expected, exit activity remained subdued through the end of 2019, likely due to market anxiety around Brexit and the trajectory of the global economy. Exit activity fell 23% year-on-year to €202 billion. The total number of exits fell 24% to 900, the lowest number since 2012. Though IPO exit volume actually rose 12% year-on-year from a few notable listings, it still accounts for just a small share of overall activity.

Source: PitchBook. As of December 31, 2019.

ASIA PACIFIC

$18B UP

Investment in Australia and New Zealand

21% DOWN

Regional investment

Asia Pacific private markets were healthy in 2019 but moderated significantly by comparison with a record 2018 across fundraising, investments, and exits. Taking a longer view, the overall trend of growing investor interest in the region remains in place. US-China trade tensions continue to impact cross-border M&A, currencies, and public markets, but fundraising and investment momentum is likely to be maintained into 2020, albeit not at 2018 levels. Exit activity should continue to be led by trade and secondary sales. IPO exit volume is likely to remain subdued, though capital market reforms in China may boost IPO activity in the medium term.

Fundraising fell 48% year-on-year in 2019 to $53 billion, led by declines among China-focused and pan-regional funds. A huge amount of fundraising in these categories was completed in 2018. Despite this decline, the regional annual fundraising total was still the second strongest on record and 15% higher than in 2017, featuring notable final closes by Baring Private Equity Asia, TPG Capital, and Warburg Pincus.[1]

Investment value reached nearly $107 billion in 2019, significantly outpacing fundraising. This was, however, still 21% lower than 2018 due to a significant decrease in large, late-stage technology financing rounds, particularly in China. Investment in Australia and New Zealand rose 140% year-on-year to $18 billion, while India maintained its strong momentum, up 22% to $25 billion. These increases were offset by declines in China (-48%), Southeast Asia (-48%), and Japan (-33%).

Regional exit activity fell 29% year-on-year to $52 billion, led by sharp declines in China and India. Trade and secondary sales continue to dominate activity, with 2019 the second strongest year for M&A exits in Asia Pacific. This was led by strong trade sales activity in Japan and South Korea. IPO exit activity remained weak on economic and geopolitical concerns. The $6 billion of IPO exits in 2019 was the lowest annual figure recorded since the Global Financial Crisis.

Sources: Asian Venture Capital Journal; Centre for Asia Private Equity Research; Emerging Market Private Equity Association. As of December 31, 2019.

1 Funds listed represent largest fund closings in the Asia Pacific market according to the Asian Venture Capital Journal as of December 31, 2019. The funds listed above are intended for illustrative purposes only. While this may or may not be an actual investment or relationship in a HarbourVest portfolio, there is no guarantee it will be in a future portfolio. Past performance is not a reliable indicator of future results.

HarbourVest

Beijing | Bogotá | Boston | Dublin | Hong Kong | London | Seoul | Tel Aviv | Tokyo | Toronto
www.harbourvest.com

HarbourVest is an independent, global private markets investment specialist with over 35 years of experience and more than $68 billion in assets under management, as of December 31, 2019. The Firm's powerful global platform offers clients investment opportunities through primary fund investments, secondary investments, and direct co-investments in commingled funds or separately managed accounts. HarbourVest has more than 600 employees, including more than 125 investment professionals across Asia, Europe, and the Americas. This global team has committed more than $40 billion to newly-formed funds, completed over $24 billion in secondary purchases, and invested over $17 billion directly in operating companies. Partnering with HarbourVest, clients have access to customized solutions, longstanding relationships, actionable insights, and proven results.