HARBOURVEST

GLOBAL PRIVATE MARKETS UPDATE

H1 2019 DATA

Year-on-year (YoY) change in key private market metrics in the first half of 2019

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

US BUYOUT

99.0% ▲ UP
YoY rise in fundraising

$11.5bn ▼ DOWN
IPO exit activity

The US buyout market remained active in H1 2019, with fundraising and investment both up year-on-year, and the outlook is generally positive. We expect Limited Partner ("LP") demand to be robust across 2019 given an attractive pipeline of managers raising funds. While purchase price multiples will likely remain elevated, heightened geopolitical and macro volatility may create buying opportunities. The outlook for liquidity is less clear, with weak recent M&A activity offset by improvements in public market sales and IPOs.

US buyout fundraising was up 99.0% year-on-year in H1 2019 to $79.5 billion, as existing private equity investors reinvested and new LPs entered the market. Part of this rise is accounted for by larger funds being in market. Sizeable funds from Blackstone and Genstar Capital, for example, helped push the average fund size up to $1.7 billion in the first half of this year, from just over $1 billion in 2018.

Investment activity remained strong, with $97.5 billion in disclosed transaction value in the first half of the year. Yet General Partners ("GPs") seem to be remaining disciplined in the face of high purchase-price multiples. Investment value rose 65.9% relative to H1 2018, but if the pace of investment in the first half of the year is replicated in the second half, annual investment would actually decline 11.0% relative to 2018.

Exit activity slowed in H1 2019, down 32.1% year-on-year. However, there was a notable rebound in IPO activity in Q2, and the total value for H1 2019 ($11.5 billion) has already surpassed each of the last three full calendar years. Sales to strategic investors via secondary sales remain robust and in line with historical averages. However, M&A activity slowed in Q2, with just $8.0 billion of deals recorded (down from $23.4 billion in Q1), likely in part due to relatively expensive markets and strong competition.

Sources: PitchBook, S&P, CapitalIQ, Buyouts Magazine, SEC, Thomson Reuters. As of June 30, 2019.

US VENTURE

26.5% UP
YoY rise in fundraising

$473.3m UP
IPO median post–offer value

The US venture market maintained its momentum across H1 2019, with fundraising, investment and exit activity in line with a record-breaking 2018. Fundraising is likely to remain strong across 2019, with flagship fund and several sector- and stage-specific platform extensions in the market. With many new investment opportunities and companies staying private longer, we expect investment levels to hold steady. Exit activity should also stay strong, given multiple venture-backed companies in IPO registration – notably Cloudflare, Datadog, DataStax, Peloton, Postmates, and SmileDirectClub – and a continued appetite for strategic acquisitions.

Fundraising by US venture funds rose 26.5% year-on-year in H1 2019 to $27.0 billion. Demand has been boosted by recent distributions, with top-tier funds oversubscribed even at premium terms. Early- and later-stage funds both sustained strong first quarters through June, with later-stage fundraising ($7.7 billion) already exceeding the total for the whole of 2018.

Investment outpaced fundraising in H1 2019, rising 29.9% year-on-year to reach $53.3 billion. If this same pace was maintained in the second half of the year, it would put 2019 on course to equal last year's record level of investment in US venture. Managers continue to participate in the follow-on rounds of their winners, which helped boost expansion and later-stage investment.

Data on exits highlights robust levels of activity and continued growth in both valuations and deal size. In terms of overall exit activity, the number of IPOs and M&A events are roughly in line with 2018. In terms of deal size, IPO median post-offer value rose to $473.3 million in H1 2019, up from $446.5 million in 2018, driven by several high-profile technology IPOs, including Uber, Lyft, Slack, Pinterest, and Zoom. The median deal size for M&A exits hit $125 million, up from $100 million last year, boosted by sizeable acquisitions such as Qualtrics (acquired by SAP) and Loxo Oncology (acquired by Eli Lilly).

Sources: PitchBook, ThomsonOne. As of June 30, 2019

EUROPEAN BUYOUT

43.2% UP
YoY rise in M&A exit value

1.3% UP
YoY rise in fundraising

The European buyout market was robust in H1 2019, with fundraising and investment steady and exit activity rebounding from a weak Q1. We expect a strong pipeline (including funds from Advent International, Permira and Apax Partners) to support fundraising activity for the remainder of the year, while several large deals should support investment volumes. Exit activity may remain slightly volatile due to political and economic uncertainty.

Fundraising was stable on a year-on-year basis in the first half of the year, up 1.3% to €39.3 billion. As we noted previously, first quarter weakness largely reflected a base comparison with a strong Q1 2018. The latest figures highlight that the European fundraising market remains robust, particularly for funds in the middle-market segment: funds between €500 million and €1 billion raised €4.0 billion in H1, up from just €1.8 billion a year prior, while funds targeting €1-5 billion raised €15.2 billion, up 37.5% year-on-year.

Investment volumes were also stable in H1 2019, despite fewer deals being executed and weakness in smaller deal activity. Total investment fell a marginal 6.5% year-on-year to €73.6 billion. Add-ons account for an increasing share of private equity investment activity, but larger deals continued to lead investment in the first half of the year, including EQT Partners' acquisition of Nestlé Skin Health for €8.9 billion.

Exit activity rebounded in Q2 after a very weak Q1. M&A exits totaled €69.5 billion in the first half of the year, 43.2% higher than in H2 2018. We expect the M&A market to continue to be robust in the second half of the year, though base comparisons could suffer due to very strong activity in 2H 2018. IPO exits were up 22.8% year-on-year to €6.7 billion, but this remains relatively weak from a historical perspective. While Q2 represents an uptick, expect volatility for the remainder of the year given market anxiety around Brexit and the trajectory of the global economy.

Sources: PitchBook, Unquote Data, MergerMarket. As of June 30, 2019.

ASIA PACIFIC

120.9% UP

YoY rise in investment in Australia and New Zealand

56% DOWN

YoY decline in regional exit activity

Taken on a historical basis, private market activity in the Asia Pacific region was relatively strong in the first half of 2019. On a year-on-year basis, however, activity has moderated after a record-breaking 2018. We expect this stable overall pace of activity to be maintained across the remainder of 2019, supported by sustained strength in economic fundamentals.

Fundraising was down 43.7% year-on-year in H1 2019 to $24.6 billion. The fundraising slowdown was led by a 59.0% year-on-year decline in China, with a milder fall in figures across the rest of the region. Nevertheless, if the current pace is maintained across the full year, fundraising will outstrip every year but 2018. Many large funds completed fundraising in 2017 and 2018, driving figures to new heights. The current environment should be viewed as a reversion to the mean. Top-performing managers' funds remain oversubscribed and spin-outs continue to create new opportunities.

Investment continued to outpace fundraising in H1 2019. Volumes were particularly strong in Australia and New Zealand – up 120.9% year-on-year – led by a resurgence in large buyout activity, and India, where venture markets continue to expand rapidly. Increased activity in these geographies was, however, insufficient to offset a sharp decline in investment in China, which fell 68.4% year-on-year, in part due to a slowdown in large late-stage technology financing rounds. This dragged down overall investment volume by 39.5%.

Regional exit activity moderated on a year-on-year basis, in line with fundraising and investment. This largely reflects base effects from a record-setting 2018, which was significantly boosted by Walmart's $16 billion purchase of Flipkart. Exit volumes remain on track to match average levels from 2015 to 2017. The vast majority of exits (94%) continue to be executed via secondary and trade sales, led by Japan and South Korea, though trade tensions and capital outflow restrictions in China are affecting cross-border M&A activity. IPO exit activity remains muted.

Sources: Asian Venture Capital Journal, Centre for Asia Private Equity Research, Emerging Market Private Equity Association, as of June 30, 2019.

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