



Q1 2024 Pulse: Private Equity Trends

New Market, New Challenges

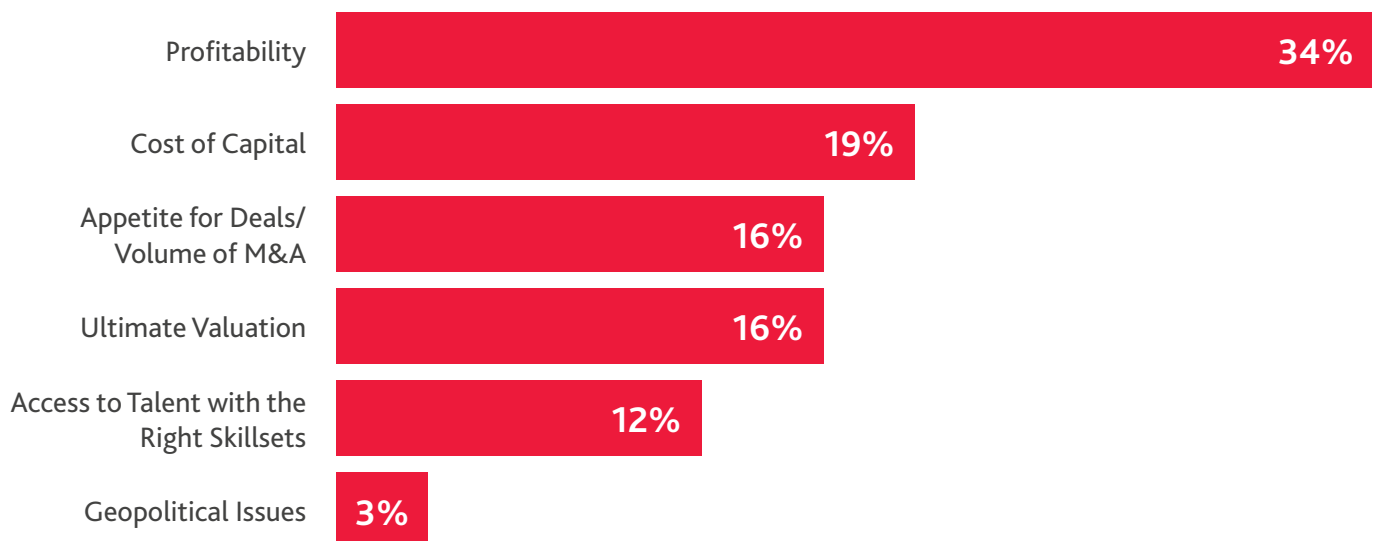
After two years of economic, financial, and workforce challenges, the private equity (PE) industry is beginning to stabilize. This year will be pivotal, however, with complex transactions and the U.S. presidential election on the horizon.

BDO's [2024 Private Equity Portfolio Company CFO Outlook Survey](#) revealed a change in CFO priorities for the year. They are now concentrating on improving their companies' valuations quickly, while also seeking stability to navigate through changing market conditions.

On March 14, BDO held a webinar, "[Navigating 2024: PE Portco CFOs Share Strategies](#)," to discuss its survey findings and private equity trends for the remainder of the year. To gauge attendees' pulse, BDO polled 181 PE professionals on their most pressing challenges and how they plan to drive value for the remainder of the year.

Fund managers and portfolio company (portco) CFOs are facing vastly different market conditions than they did a year ago. Now, PE professionals polled during our webinar noted the following challenges:

TOP CHALLENGE TO MEETING YOUR INVESTMENT THESIS



While profitability stands out as the top challenge this year, portcos have improved their financial positions. Headwinds are beginning to ease as inflation has largely moderated and interest rates have not risen since the fall. Material and labor costs are also softening, and supply chain challenges are letting up for many.

In addition to profitability, the cost of capital is increasingly top of mind as liquidity remains challenging. Many PE funds have a backlog of maturing investments, which has lowered limited partner (LP) distributions and reduced internal rates of return. However, as the private markets close the valuation gap between the public markets, PE funds can sell their older vintage portcos and distribute cash to LPs.

Value Creation is Top of Mind

As funds and their portcos successfully chart a course through a changing economic landscape, many are prioritizing organic growth in 2024. Those polled during the webinar are planning to deploy several value creation levers, most notably including:

#1 Cash Flow Optimization

Cash flow is king in 2024. Lower revenues and profits in 2023 drew more attention to cash flow and capital structure management, making it the number one priority for PE funds and their portcos.



Cash flow has likely improved for many, but PE is not in the clear yet and must continue to approach it strategically.

#2 Talent Management

The labor market has proved to be an obstacle to value creation in the past few years. While conditions are improving, portcos are not taking their foot off the gas as they step up their talent recruitment and retention efforts.



PE funds that lead with layoffs will face difficulties as their portcos take on increasingly complex projects requiring technical expertise and deep experience.

#3 Acquisition Growth

Improvement in portco valuations is driving add-on acquisitions. These small add-ons or carveout transactions generate value through multiple arbitrage and increase cash flow.



Carveout sales of non-core assets can also allow portcos to generate liquidity to manage the capital structure or invest in growth opportunities.

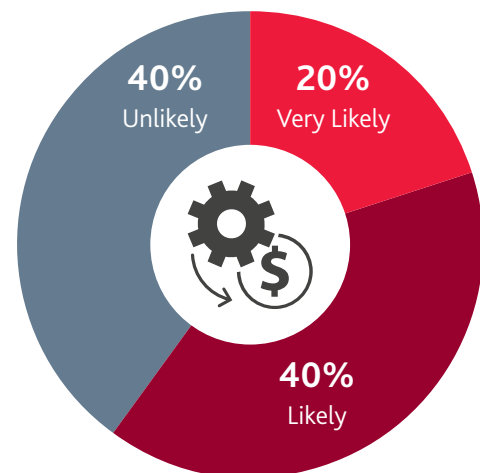
Acquisitions can be challenging to execute, which makes it crucial for PE professionals to have the right talent in place.

Transformative Transactions are on the Horizon

The recent rise in equity market valuations has improved the outlook for exits in 2024. Funds and their portcos anticipate reduced rates, improving their confidence in executing deals ahead of the November presidential election.

Nearly two-thirds (60%) of those polled during the webinar are likely or very likely to complete a transformative transaction, such as an acquisition, recapitalization, or exit in the next year.

LIKELIHOOD OF COMPLETING A TRANSFORMATIVE TRANSACTION IN THE NEXT 12 MONTHS



For the remainder of 2024, BDO is expecting an increase in three types of deal activity:

1. [Add-on acquisitions](#) to bolster cash flow and valuations
2. Recapitalizations
3. Sales of portcos at more attractive valuations to distribute cash back to LPs

Looking Ahead

As the equity and credit markets have stabilized in recent months, funds and their portcos are more confident in executing deals ahead of the presidential election.

From pre-deal strategy and transaction support to post-deal value creation and exit support, we help fund managers achieve the greatest potential from their portcos.

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