What's Ahead for PE: The Value-Add of Valuation

VRC is an independent, global valuation & advisory services firm. We focus on delivering the right value for your organization that withstands scrutiny from auditors and other external parties. VRC provides transparent, reliable, fair value reporting in an increasingly complex universe of investment and growth opportunities. Since 1975, we've delivered supportable conclusions of value to domestic and international clients of all sizes, types, and across all industries.

Jeff Miller, Managing Director

How would you characterize the dealmaking environment today?

At the moment, private equity firms have a great deal of dry powder and are aggressively trying to put capital to work. Firms that are focusing on specific niches or sectors (restaurant chains, specialty manufacturing, fintech) seem to be getting the most deals over the finish line.

In the middle-market, there has been a material increase in the number of add-on acquisitions at the portfolio company level. Additionally, we are also noticing a trend towards larger sponsors coming down market and competing with middle-market, and even lower middle-market firms for deals.

Why are larger firms coming down market?

Lower prices, lower multiples and, hopefully, less competition. Multiples on the upper end of the market have been high, and the larger firms are trying to find ways to deploy the capital they have in a less competitive environment. It is the same reason we see more tuck-in acquisitions in the middle-market. There are privately-owned companies, that are too small to be a stand-alone platform company, with good fundamentals flying under the radar that can be acquired and tucked in to existing platforms. This is occurring most often in the automotive aftermarket space, in dental practice management, physical therapy, and other related industries. The technology and distribution industries are very active as well.

What are the most significant trends you are seeing in private equity today?

Many of our private equity clients are launching credit funds; it seems to be a popular strategy in the middle-market as of late. Although larger sponsors have been running PE funds in parallel with credit funds for years, lately there has been an increase in the number of private equity firms expanding their product offering to include credit.

More private equity firms have also gotten involved in Special Purpose Acquisition Companies (or SPACs) over the past couple of years. A SPAC is a company that raises money in an IPO, then uses the cash to purchase businesses. SPACs have benefits that have led private equity sponsors to use them to raise capital. They provide a potential permanent capital solution for sponsors through access to public markets, which allows for more open-ended private equity investments. In this competitive market, fund sponsors are trying to find creative ways to differentiate their investment strategy.

What are some of the common challenges private equity firms face today and how do you help them overcome these challenges?

With so much fresh capital to put to work and the resources needed to analyze deals, firms are turning to third parties like VRC to assist with their internal valuation requirements for financial reporting purposes. A valuation firm can provide an independent analysis of the portfolio investments using proprietary data to arrive at an accurate and supportable value that will withstand scrutiny. Also, outsourcing this function helps take work off the desk of the deal teams so they can focus on deploying capital and managing the portfolio.

Private equity firms often 'mark' their investments internally. However, more and more firms are reaching out to us for valuations of their portfolio company investments on a quarterly or bi-annual basis. VRC can provide a range of services to PE firms including full valuations of their portfolio positions or review and provide assurance services related to a client's internal portfolio valuations. Both LPs and auditors seem to be driving this trend.

What value add do you bring to the private equity industry?

Dependability, reliability, and proprietary data. Our PE clients turn to us as a trusted advisor. Whether we are assisting with financial or tax reporting, fairness opinions, solvency opinions, or valuation of equity or debt positions, clients know that we deliver efficient, quality and significant expertise.

PE firms choose VRC because we have worked in the middle-market PE valuation space for decades. In 2018, we worked on nearly 600 deals, and valued over 5,000 investments with 3,000 companies. VRC's professionals bring the experience and internal data needed to provide best-in-class, audit-defendable valuations.

VRC provides a full range of valuation services that can be useful to PE firms and their portfolio companies in connection with their tax and financial reporting needs as well as solvency and fairness opinions in support of a variety of transactions.

What changes do you expect in the private equity industry over the next year?

Concerning deal flow, we expect trends similar to the past 12 months. We believe PE firms will also continue to look for creative ways to differentiate.

We also may see more emphasis on carve-outs from large corporations that are streamlining operations and focusing on core products and services.

Finally, we are anticipating a greater emphasis on cross-border transactions. PE firms have been steadily turning their attention to Europe and Asia for both deal flow and capital raises. In situations like these, clients benefit from the expertise of our global affiliate network, Valuation Research Group (VRG). VRG's 12 affiliates and more than 1,300 professionals across the globe work with many of the world's leading multinational firms, have local market knowledge and in-country tax expertise. Driven by one local point-of-contact with 'boots on the ground,' our global team also excels in delivering valuations for real estate and M&E.

> **"With so much fresh capital to put to work and the resources needed to analyze deals, firms are turning to third parties like VRC to assist with their internal valuation requirements for financial reporting purposes."**

CONTACT INFO

Jeff Miller
Managing Director
Tel: (917) 338-5611
JMiller@ValuationResearch.com

VRC