Chart of the Week

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Can Private Equity Outperformance Persist?

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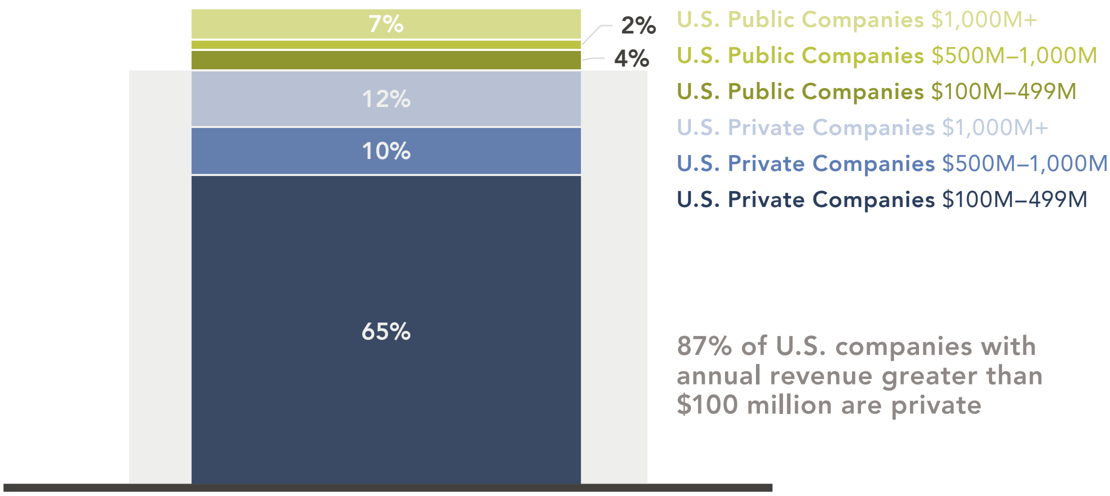
A larger universe of private companies presents a more robust opportunity set for private equity managers



U.S. Public & Private Companies By LTM Revenue ($M)

Source: Capital IQ as of February 2021

North American private equity managers have consistently outperformed the Russell 3000 as well as other broad equity indices over the last 20 years.[1] Key value drivers that have contributed to this outperformance include information asymmetry, a longer-term strategic focus, use of leverage, improved management and governance, and effective value creation plans. But for private equity managers to continue to achieve these outsized returns, they must first find the right opportunities and then be able to effectively monetize their investments.

In the U.S. there are approximately 17,500 private companies with annual revenue greater than $100 million, compared to roughly 2,600 public companies above the same revenue threshold. For every one public opportunity at this level, there are almost seven private opportunities. There are also more than 340,000 private businesses with revenue between $5 and $100 million. As private markets continue to grow and evolve, private companies will be able to access capital with greater ease than they have historically. This, in addition to the disadvantages of going public, should extend the trend of companies staying private for longer. This sets the stage for private equity managers to continue to deliver attractive risk-adjusted returns, with a robust opportunity set and a number of unique investment advantages.

[1]Pitchbook as of Q320, latest data available. Sources: Capital IQ, Forbes, and PitchBook.

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