cutting through complexity

Private Equity Outlook

Most private equity executives predict that they will invest more next year

Private equity (PE) executives, when asked recently whether their investment activity would rise over the next year, 59 percent answered in the affirmative, while 33 percent believed it would remain "about the same." Only 8 percent said they expect to decrease investing activity.

These findings were among the results of a survey taken by KPMG LLP, the audit, tax, and advisory firm, at the Dow Jones Private Equity Analyst Conference, held in late September in New York and sponsored by KPMG.

"There is a great deal of uncertainty in the marketplace and some participants may be waiting on the sidelines, even though we saw a number of large PE transactions announced during the third quarter," said Marc B. Moyers, national sector leader for KPMG's Private Equity practice. "Fund-raising has picked up in the last quarter, debt is available to finance transactions, and covenant terms are reasonable."

Fifty-three percent of respondents reported they expected fund-raising to increase over the next year, while 14 percent said they thought it would decrease and 33 percent said they expected it to stay the same.

Difficulties finding investment opportunities

When asked about the most challenging issue facing private equity, 23 percent said "identifying quality investment opportunities." The same percentage indicated that "the tough IPO market/exits" was most challenging, followed by geo-political concerns and the image of the PE industry, each at 16 percent.

"Some in the PE industry may be concerned about dealing with the new regulatory environment, such as the new reporting requirements mandated by FATCA," said Glenn Mincey, KPMG's national tax leader for PE, referring to the Foreign Account Tax Compliance Act. "Many investors are hindered by the sheer volume of regulatory compliance as well as the lack of certainty."

Other KPMG survey findings include:

- PE executives believe energy will be the most attractive sector to invest in (27 percent), followed by healthcare (24 percent) and technology (23 percent). In last year's survey, energy also led, but by a larger total (38 percent).
- Most respondents believed that the U.S. IPO market would generally remain the same over the next 12 months (39 percent), and 36 percent thought it would increase steadily. Only 18 percent felt that it would "take off."
- The region offering the best investment returns, given competition, relative valuations, projected returns, outlook, and ease of doing business, was North America (41 percent), followed by Latin America (33 percent) and Asia (16 percent).

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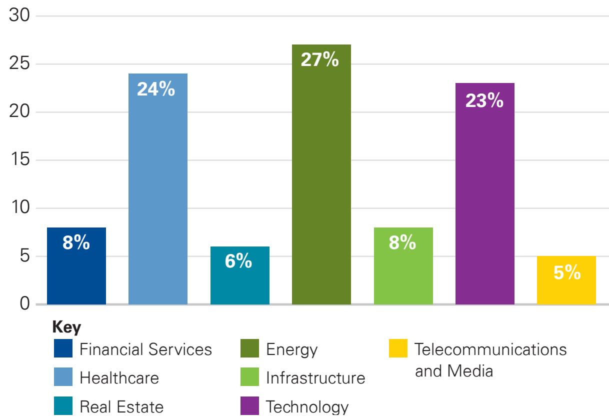
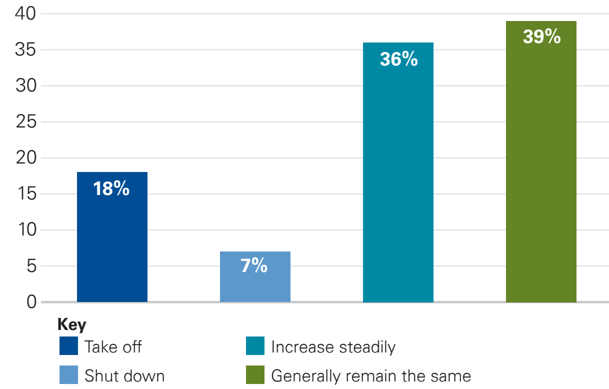
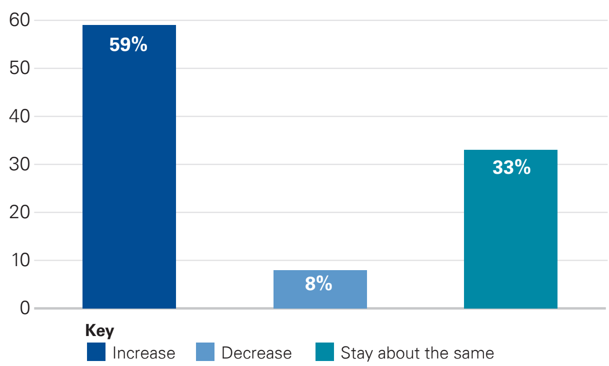
What sectors do you think offer the most attractive returns in the future for investment now?



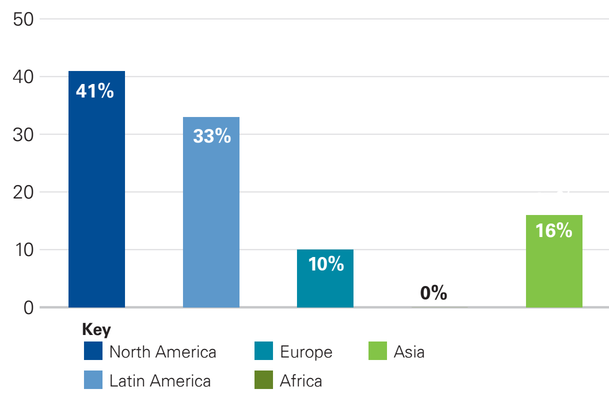
Over the next 12 months, will the U.S. IPO market take off, shut down, or remain the same?



In the next 12 months, do you expect your investment activity to:



Which regions promise the best returns given competition, relative valuations, projected returns, economic outlook, and relative ease of doing business, in the future?



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