Peak time

FUNDRAISING

Throughout 2005, private equity fundraising activity was as intense as it has ever been. Can – and should – last year's pace be sustained, asks Philip Borel.

As far as the private equity business is concerned, 2005 kept its promise. After an already bullish 2004, last year was always going to be memorable for the industry, and in terms of activity levels, it very much delivered – especially in the LBO markets of North America and Europe. Here, perfectly positioned to take advantage of market conditions that many professionals describe as the most benign the industry has ever experienced, general partner groups set new records in terms of profits harvested and new money deployed. At the same time, in no small part as a result of the deal fest, fundraising went through the roof as well.

Such was the buyout industry's strength last year that in terms of global M&A activity, private equity appeared to dominate proceedings almost at will. According to research house Dealogic in New York, the frenzy resulted in deals worth nearly $500 billion (€417 billion). And with many indicators pointing to a continuation of this trend in 2006, investors active in the asset class welcomed many of the GP groups returning to the fundraising trail with wide-open arms. Unsurprisingly therefore, many of the most popular offerings were able to hit if not exceed their targets with ease.

A total of $261 billion was committed to new private equity funds worldwide, nearly $100 billion more than in the already busy year 2004, according to figures compiled by research provider London-based Private Equity Intelligence. 139 buyout funds secured $134 billion between them, more than twice the total garnered in 2004. Venture groups raised $37 billion, followed by private equity real estate funds with $35 billion and funds of funds with $16 billion.

Kojima: even $10bn funds restrict access

BIGNESS

The most eye-catching contribution to the overall fundraising tally came from the mega-buyout groups. In the US, both Blackstone and Apollo finished the year having smashed the $10 billion barrier ahead of final closings – the two largest pools of buyout capital ever formed. In Europe, the world's most active region for LBOs in 2005, CVC Capital Partners set a new record as well, capping its fourth pan-European fund on €6 billion. While clearly an impressive result, the fund nevertheless left some in the market wondering why CVC had chosen not to finish on an even larger number.

These and other mega-funds sold like hotcakes because institutions saw more and more evidence that the members of the big buyout club really could source and complete those very large transactions they had promised. Deals such as the Clayton Dubilier & Rice-led $15 billion leveraged buyout of US car rental operator Hertz or the €10 billion tender offer for listed Danish telecommunications operator TDC sponsored by Blackstone, Permira, Providence Equity Partners and KKR proved to the buy side that the number of quality companies too big to be touched by private equity was indeed – and still is – shrinking.

With apparently unlimited liquidity available in the debt markets to finance ever more aggressively financed acquisitions, the large buyout houses were able to pursue ever-larger companies, a strategy that the buy side clearly took a liking to.

LPs also came to appreciate the point that big companies often produce big piles of cash, which enables sponsors to service large helpings of debt placed on the companies' balance sheets – debt that in turn can be used to fund large dividend payments to the underlying equity funds. And indeed, as last year's refinancing boom moved into top gear, investors saw unprecedented amounts of capital distributions coming out of buyout funds, including buyout funds of relatively recent vintage. According to Dealogic, European partnerships alone paid out $13.5 billion in dividends generated from refinancing deals – more than twice the amount raised from recaps in 2004.