H1 2024

PRIVATE EQUITY MARKET OVERVIEW

Venture Capital

U.S. Private Equity

European Private Equity

Secondaries

Abbott Capital Management, LLC

OVERVIEW

As the first half of 2024 drew to a close, some market commentators (despite a general predisposition at times to focus on bad news) began to observe the soft landing that the U.S. appeared to be enjoying – a soft landing that Abbott has been noting since the end of last year. Inflation (as measured by the Personal Consumption Expenditures or PCE Index) fell a bit to 2.5%. Unemployment moved up slightly in June, and wage growth moderated. All of these were predictable, if lagged, outcomes of the Federal Reserve's fight against inflation. The advance estimate of Q2 2024 GDP growth suggested an increase from the first quarter, although it remains well below 2023. Some moderation in GDP growth will supply support for any Fed rate cut decision in September.

In the financial markets, both the S&P 500 (+15.1%) and the tech-heavy NASDAQ (+20.1%) advanced handsomely in the first half, while the Russell 2000 returned only 1.7%. The yield on the 10-year U.S. Treasury rose by about 30 basis points. In Europe, the Stoxx 600 (+6.9%) and FTSE 100 (+5.7%) were both gainers for the first half. However, the Volatility Index, or VIX, has climbed to levels not seen since January 2023. The VIX is often referred to as the "fear index;" higher values imply that investors are expecting greater volatility in the S&P 500 (and by extension, the broader U.S. stock market) over the next 30 days.

Between the somewhat mixed signals the Fed is observing, increased financial market volatility, and upcoming presidential elections in the U.S., investors may want to buckle up: we expect some turbulence as we make our final approach to that soft landing.

The private markets certainly do not operate in a vacuum, but they are generally less affected by short term market or economic movements. As you will read below, fundraising appears to have grown, albeit over longer timelines. Investment activity was generally up modestly, but exits remained elusive. Venture capital-backed companies in particular, even those that are promising and scaled, struggled to exit through a mostly-closed IPO window. Halfway through 2024, it seems unlikely that new-issuance investors will flood into the market until at least after the U.S. election in November, and more likely not until 2025. As a result, some investors may remain liquidity constrained.

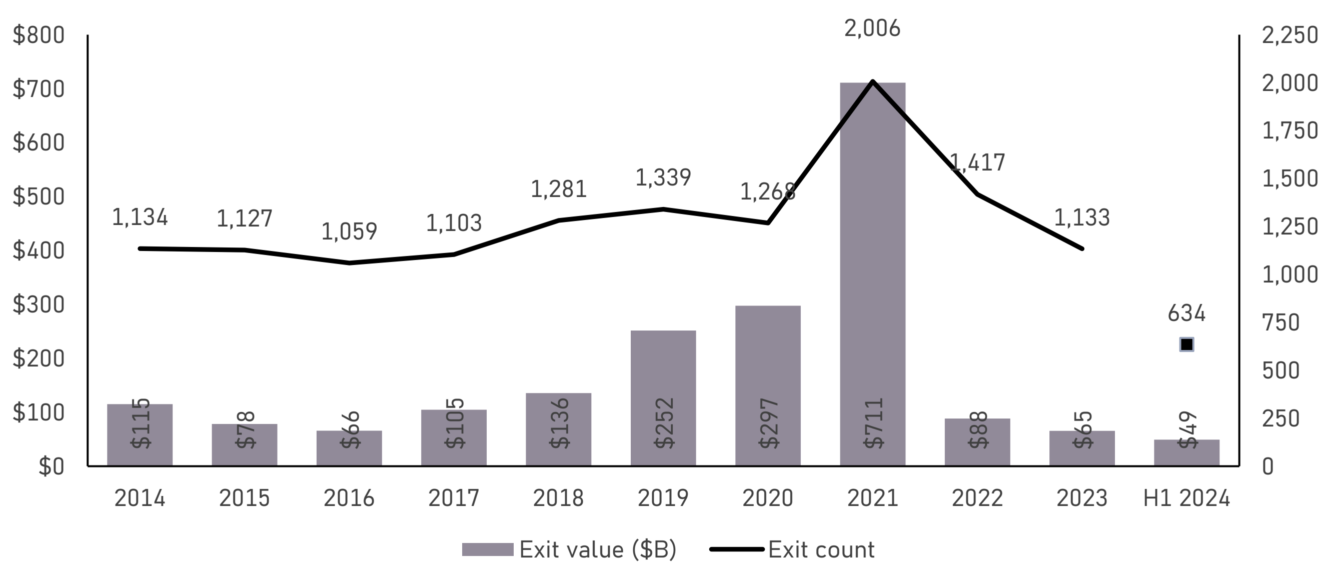
VENTURE CAPITAL

U.S. venture capital fundraising has been declining since 2022 due in large part to excess dry powder and a decline in exit and, in turn, distribution activity. However, H1 2024 outpaced H1 2023, suggesting a modest recovery in fundraising. Of the $37 billion raised through H1 2024, $17 billion or roughly 46% was raised by 11 large-scale funds ($1 billion or larger in fund size). Overall dry powder stood at approximately $296 billion, and approximately 38% of that rested with funds larger than $1 billion in commitments.

Deal activity by value in Q2 appreciated roughly 47% from the prior quarter and represented a quarterly high since Q2 2022. Additionally, 2024 deal count is on pace to exceed 2023 figures. Comparing deal value across stage, both early- and late-stage deals gained momentum in H1 2024, reaching $28 billion and $41 billion, respectively. With a similar number of transactions, this suggests an increase in round sizes. Furthermore, regardless of stage, megadeals ($100 million or larger round size) accounted for 3% of the quarterly deal count but 61% of the quarterly deal value. Although the rate of new unicorns (companies with valuations exceeding $1 billion) being established is below historical levels, the total number of active unicorns reached 735 companies in H1 2024. Post-money valuations for unicorn companies continued to climb, signaling potential investor enthusiasm for perceived winners.

U.S. venture capital exit activity continued to suffer, with quarterly levels below $30 billion in H1 2024. In H1 2024, a total exit value of $49 billion across 634 transactions (includes estimated exit count of 132), which, while muted, was a significant increase in value compared to H1 2023's $16 billion. The IPO backlog continued to be robust, despite two unicorn IPOs in Q2 2024. Thirty-seven public listings in H1 2024 generated 58% of the total exit value versus 29% in H1 2023, when 35 companies listed. M&A exit value, at $19 billion for the first half, was well below the recent H1 peak in 2021, when that value was $38 billion.

U.S. VENTURE CAPITAL EXIT ACTIVITY



Data Source: Q2 2024 PitchBook-NVCA Venture Monitor
2023 includes estimated exit count of 38, 2024 includes estimated exit count of 132.

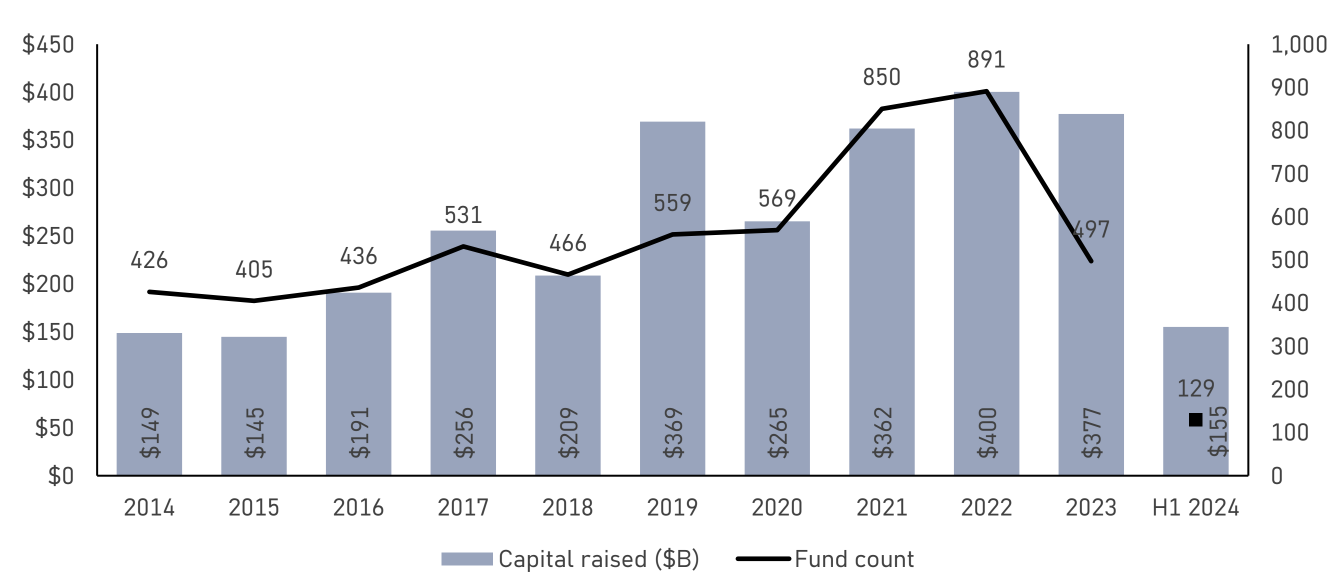
U.S. PRIVATE EQUITY

U.S. private equity fundraising levels remained resilient in H1 2024 with $155 billion of total commitments, consistent with the $153 billion raised in H1 2023. Median fundraising timelines continued to stretch out, however, reaching 18 months versus nearly 15 months in 2023 and represented the longest length of time since 2011. While longer fundraising timelines in H1 2024 may have contributed to GPs raising additional capital, with 77% of funds closing higher than their previous sizes, the count of total funds closed declined to 129 in H1 2024, down from 160 in H1 2023, suggesting a flight to top-performing managers. The middle market segment continued to grow, with funds sized between $1 billion – $5 billion in commitments representing 21% of new partnerships raised in H1 2024 versus a prior three-year average of just 10%.

In H1 2024, U.S. private equity deal activity continued to stabilize, with deal value expected to top $375 billion across 4,210 transactions (includes estimated deal count of 1,012), making it the busiest six-month period since 2022. In parallel with the growing number of middle market managers, the volume of deals that transacted at sub-$100 million valuations grew from 65% in H1 2023 to 71% in H2 2024, which may be attributable to the volume of add-ons being 77% of all buyouts.

Exit activity has been largely muted in H1 2024 with a continued focus on quality. While the number of exits in H1 2024 was on par with H1 2023, exit value increased by 15% from H1 2023 to H1 2024, driving median exit value to $493 million this year, which is higher than the record $479 million seen in 2021. As noted in our year-end 2023 market overview, continuation vehicles have become an increasingly important exit option for GPs, with H1 2024 experiencing 45 of these exits, outpacing 2023 on a run-rate basis. After a subdued 2023, it appears that the IPO window is also beginning to pry open, which may signal positively for the broader exit environment. In H1 2024, there were $22 billion worth of IPO exits across eight transactions, eclipsing the full-year 2023 amount of $21 billion across 13 transactions.

U.S. PRIVATE EQUITY FUNDRAISING ACTIVITY



Data Source: PitchBook Q2 2024 US PE Breakdown

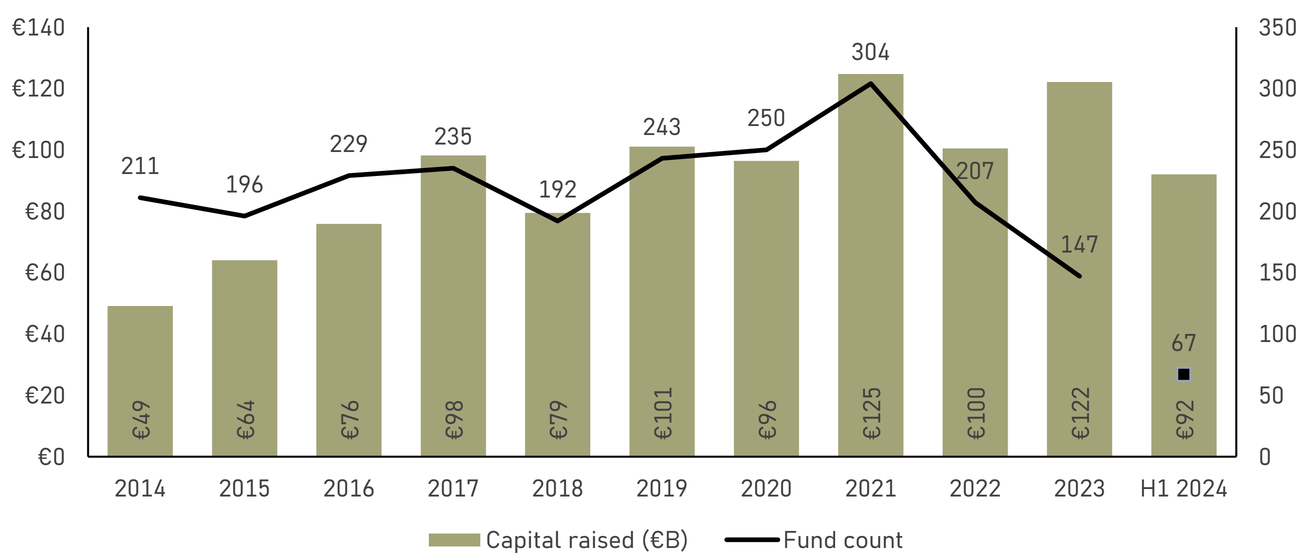
EUROPEAN PRIVATE EQUITY

European private equity fundraising was strong in H1 2024 with €92 billion raised across 67 vehicles, putting 2024 fundraising on track to come in at its strongest, by volume, in at least a decade. There are two noticeable trends in the European fundraising landscape. Firstly, larger funds, with sizes in excess of €5 billion in commitments, appear to have been more successful in raising capital so far in 2024, with €60 billion raised in H1 2024, representing 66% of overall funds raised by volume. This development is in line with long term trends of LPs expecting to make fewer, but larger commitments to GPs and the fact that larger, more established managers often have longer and better-known track records, finding it easier to attract capital. Secondly, fundraising timelines have increased, with the median time to closing increasing from 15 months in 2023 to 18 months in 2024. This has affected both large and small GPs.

Deal activity continued to recover in H1 2024 compared to H1 2023. In the first half of the year, 3,772 deals (includes estimated deal count of 976) worth an estimated €191 billion closed, marking year-over-year increases of 10% and 1%, respectively. Monetary easing has gained momentum in Europe with the European Central Bank cutting rates in June 2024, decreasing interest rates by 25 basis points to 3.75% and likely fueling deal activity for the remainder of 2024, as debt for buyout transactions becomes cheaper.

With respect to realizations, activity rebounded in H1 2024 compared to H1 2023 in terms of transaction numbers. In H1 2024, 733 PE-backed companies exited (includes estimated exit count of 253), an 11% increase year-over-year. Volume, on the other hand, remained relatively flat with transactions with a cumulative value of €111 billion exiting, representing a slight year-over-year decrease of 4% in exit value compared to H1 2023. While it remains a tough market, overall it appears momentum may have started to shift toward a more seller-friendly environment. This is supported by the fact that the median EV/EBITDA multiple in Europe stood at 12.1x for the trailing twelve months ending June 30, 2024, marking a noticeable increase from 10.2x for year-end 2023. It may also be a sign that there was more exit momentum in what have been perceivable more attractive sectors, such as technology and healthcare, which traditionally command higher multiples.

EUROPEAN PRIVATE EQUITY FUNDRAISING ACTIVITY



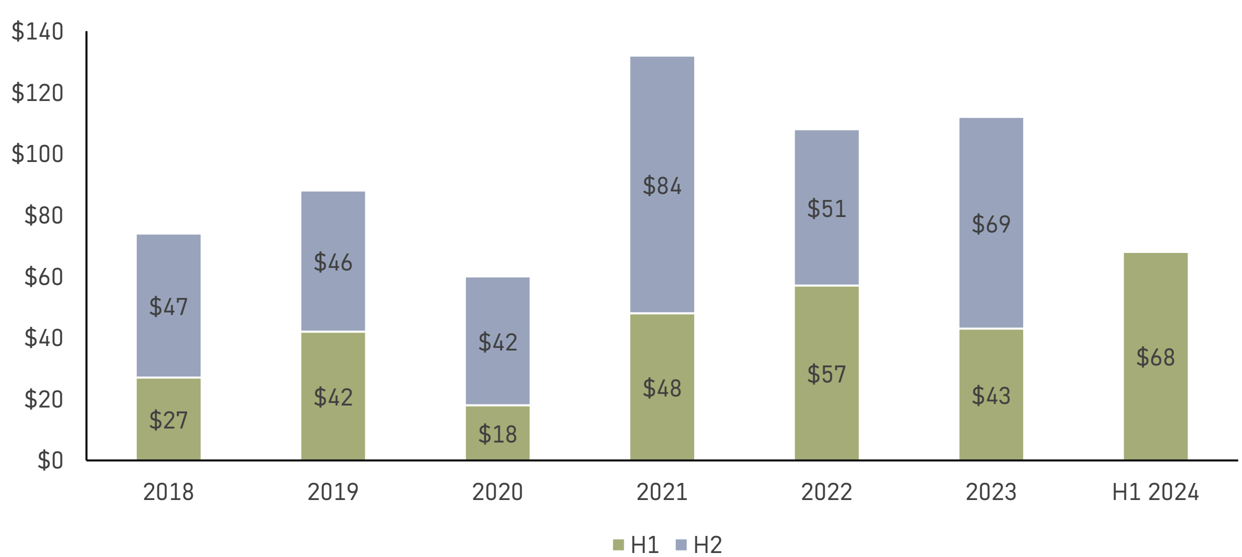
Data Source: PitchBook Q2 2024 European PE Breakdown

SECONDARIES

Secondary transaction volume of $68 billion in H1 2024 was one of the highest on record for a first half of a year, representing a 58% increase from the $43 billion in volume in H1 2023. Per Jefferies, this increase was driven primarily by LP portfolio transactions, which at $40 billion represented 59% of deal volume. This increase in LP portfolio sale volume was driven by a variety of factors, including a rise in the number of mega sales. For example, in H1 2024, there were ten LP transactions of $1 billion or greater completed, representing a meaningful uptick from the six transactions completed in H1 2023. Furthermore, the number of LPs utilizing the secondary market also increased, as 45% of LP transactions were from first time sellers versus 39% in 2023. In general, LPs appear to have been motivated to sell by both historically low distribution activity and overallocation concerns. LPs were also willing to sell their portfolios to multiple buyers, with the average number of buyers per transaction increasing from 1.6 in 2023 to 2.1 in H1 2024.

GP-led transaction volume increased considerably in H1 2024 to $28 billion, a 56% increase over the previous year, though they represented a smaller proportion of the total secondary market than in 2023. In keeping with prior periods, continuation funds dominated the market, representing 90% of all GP-led transactions in H1 2024. However, unlike in the previous year, single asset continuation funds in H1 2024 made up the majority of transactions, specifically 64% of volume in H2 2024 versus 41% in 2023. This may be due to stronger pricing for single-asset transactions, which are often considered to be GP's trophy assets. This contrasts with multi-asset transactions, where pricing may be lower if the GP seeks to wind down a fund that contains additional assets of less interest to secondary buyers. The vast majority, or 78%, of all GP-led transactions in H1 2024 were for buyout assets. As in years past, GPs have used continuation vehicles as an important liquidity path, with continuation funds hitting a record 14% of total sponsor-backed exit volume in H1 2024.

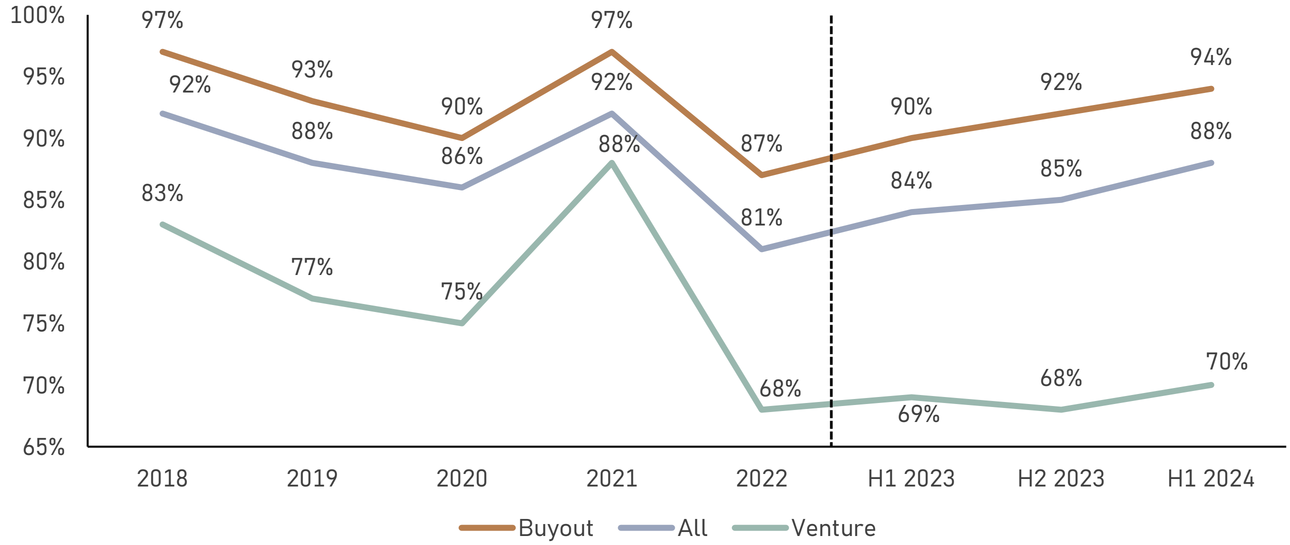
SECONDARIES TRANSACTION VOLUME BY YEAR ($B)



Data Source: Jefferies H1 2024 Global Secondary Market Review

Pricing for LP interests also improved in H1 2024, with LP portfolio pricing across all strategies increasing in aggregate by 300 basis points when compared to H2 2023. In H1 2024, bid-ask spreads narrowed, leading to greater transaction volumes. This may have been driven by a rise in public market indices as well as the inclusion of younger funds in portfolio sales. On average, younger buyout funds (2021 or newer vintages) priced and traded at 99% of NAV, whereas tail-end buyout funds (2011 or older vintages) traded on at 69% of NAV. The average age of funds sold in H1 2024 was 6.4 years, versus 7.0 years in 2023. Buyout pricing increased by 200 basis points from H2 2023 to 94% of NAV in H1 2024. Similarly, venture pricing increased by 200 basis points to 70% of NAV, though it remains substantially lower than the elevated pricing levels seen in 2021. The amount of venture funds transacted also remained low at only 12% of total volume, which may be due to a continued disconnect between how venture assets are valued by GPs and what secondary buyers are willing to pay. Jefferies noted that the sale of venture funds occurred primarily as part of broader diversified portfolio sales.

SECONDARIES LP PORFOLIO PRICING (% OF NAV)



Data Source: Jefferies H1 2024 Global Secondary Market Review

ABOUT ABBOTT

Abbott Capital Management, LLC was founded in 1986 with the objective of providing long-term continuity and accountability in private equity portfolio management. As an independent investment adviser specializing in the creation and management of private equity investment programs, Abbott manages assets for a global investor base comprised of public, corporate, and multi-employer pension funds, foundations, endowments, family offices, and high net worth individuals.

SOURCES

Unless otherwise noted, with respect to private equity information, data sourced through: PitchBook Q2 2024 US PE Breakdown, PitchBook Q2 2024 European PE Breakdown, PitchBook Q2 2023 US PE Breakdown, and PitchBook Q2 2023 European PE Breakdown.

Unless otherwise noted, with respect to venture capital information, data sourced through: Q2 2024 PitchBook-NVCA Venture Monitor and Q2 2023 PitchBook-NVCA Venture Monitor.

Unless otherwise noted, with respect to secondaries information, data sourced through Jefferies H1 2024 Global Secondary Market Review.

IMPORTANT INFORMATION

Past performance is not a guide to future results and is not indicative of expected realized returns.

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