Broadridge

5 KEY TRENDS

Private equity enhancing operations to keep pace with growth

Having successfully navigated the pandemic over the previous 18 months, private equity is in a resoundingly strong position. Broadridge looks at what 2022 could hold for the private equity industry.

TREND #1

Strong fundraising looks set to continue

Private equity inflows show no sign of decelerating - with PEI (Private Equity International) data indicating that 2021 is poised to be a record year for fundraising – with $535.3 billion having been accumulated in the first nine months of the year. According to PEI, this is the industry's best fundraising year since 2008. Unsurprisingly, private equity assets are now at record highs – with managers running in excess of $5 trillion. Broadridge expects that 2022 will see equally strong fundraising activity.

$5T
private equity assets

$1.6T
dry powder

TREND #2

Finding a place to put dry powder to work

Although private equity fundraising has been exceptional, it does mean there is now a substantial amount of dry powder floating around, namely money that has not yet been spent on deals. Preqin data reveals that private equity firms are sitting on approximately $1.6 trillion of dry powder, which urgently needs to be put to work. With so much capital available, there will likely be a number of LBO (leveraged buyout) mega deals in 2022.

TREND #3

ESG goes to the next level

The COP26 Climate Conference reinforced the risks that climate change poses. It is an issue which investors are taking very seriously, something which is being driven by performance considerations, risk management and growing regulation around sustainability. A report by law firm Dechert found 60% of North American private equity firms expect LPs (limited partners) will increase their level of scrutiny on environment, social, governance (ESG) issues and reporting. As a result, private equity will continue to incorporate ESG factors into their decision-making processes in 2022.

TREND #4

Adoption of disruptive technologies to filter into private equity

As managers look to etch out cost savings in their operations, disruptive technologies such as DLT (distributed ledger technology), AI (artificial intelligence) and RPA (robotic process automation) could play a meaningful role in helping them achieve this. In the case of AI, many believe the technology has the potential to expedite the deal-making process allowing managers to analyze large data sets at much quicker speeds. Similarly, the automation benefits enabled through RPA will help facilitate firm-wide efficiencies in activities such as investor and regulatory reporting. Elsewhere, DLT can support recordkeeping and auditability in what could be useful for complex asset classes like private equity. As 2022 nears, it is expected that private equity managers will increasingly eschew manual processes in favor of new technologies.

TREND #5

More private equity will turn to private credit for funding

Private equity managers are bypassing banks and going directly to private credit funds to obtain financing for deals. Dechert's report said 45% of private equity firms have increased their use of private credit financing in buyouts. Many private equity firms note that borrowing from private credit funds is a more seamless process than procuring bank financing. As the borrowing process is much easier, deals can be executed incredibly quickly. In addition, private credit funds are also reportedly offering private equity borrowers more leverage than they would receive from a bank. As such, private credit funding of private equity transactions will certainly intensify next year.

Read more about our solution for private equity.