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Macro Roundup Article

Headline: Private Equity Fundamentals

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Tweet: .@verdadcap argues that given private equity's high valuations (33.4x EBITDA) and high debt levels (8.8x net debt/EBITDA), returns going forward are likely to be low.

Summary: We took a look at all PE/VC-owned public companies, or companies with public debt, that were 30%+ sponsor-owned, had IPOed since 2018, had a recognizable sponsor as the largest holder, and were headquartered in North America. Today, the entire sample trades at 22.4x pro-forma EBITDA, which is roughly in line with the Russell 2000 Growth, where the median company trades at 20.7x EBITDA. However, for companies in our sample that reported both pro-forma and GAAP EBITDA, this includes 500bps of adjustments. On a GAAP basis, these companies trade at 33.4x EBITDA with 8.8x net debt/EBITDA. The sample of companies we looked at is nearly unprofitable on an EBITDA basis, mostly cash flow negative, and extraordinarily leveraged (mostly with floating-rate debt that is now costing nearly 12%). These companies trade at a dramatic premium to public markets on a GAAP basis, only reaching comparability after massive amounts of pro-forma adjustments. And these are the companies that most likely reflect the better outcomes in private equity.

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