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Minimum expected return of private equity companies: Claims become more modest

- The minimum expected return that private equity companies (excluding MBGs) have on their portfolios, has decreased in the past decade. In the year 2002 private equity companies on average expected a minimum return of 25 %. By 2011 this expected return fell to almost 19 %.
- Depending on enterprise type, private equity companies have distinct levels of target return. The profit-orientation, the risk of the investment activity as well as the (re-) financing habits of an private equity company are relevant to the minimum expected return.
- Independent private equity companies are more strongly return-driven; in the period from 2002–2011 these expected the highest minimum return from their portfolio with an average of 22.2 %. However, with regards to the investment focus the target return of the independent companies hardly differ (early-stage: 22.6 %; later-stage: 21.8 %; buyout: 22 %).
- CVC-companies tend to pursue strategic goals in the form of innovations or knowledge transfer. This is reflected in a slightly lower average minimum expected return (19.1 %). Here the highest minimum return expected by early-stage-companies is 20 %. Later-stage-companies are clearly behind with 17.2 %. This expresses the greater risk of the investment activity. The comparatively high return expectation of the buyout-companies (22 %) is attributable to the use of leverage-financing.
- Public private equity companies have the lowest minimum return expectations (12.7 %). They fulfil a mandate, where the macro-economic return of investments plays a significant role. The return difference between early-stage- (15.2 %) and later-stage-companies (MBGs, 9.1 %) can be largely traced back to the refinancing conditions of MBGs.
- The analyses show that in the past decade the minimum return expectation for the portfolio of almost all enterprise types – with the exception of MBGs – has decreased. This decrease is an expression of the adjustment of the investment sector to realistically achievable returns. After the bursting of the new-economy-bubble and the associated limited access to stock market as an exit option, these are significantly more modest.