MEKETA

Converging Paths or Persistent Gaps? Understanding Valuations Across Public and Private Equity

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Valuations play a critical role in shaping long-term investment outcomes and are often considered to be an important determinant of future performance. Therefore, it is natural for allocators of large pools of assets to examine valuations across different markets. An area that has drawn attention in recent years is the comparison of valuations for the stock market and private equity, as both public and private equity valuations are near all-time highs. In this research note, we aim to evaluate where private equity valuations are relative to public markets, with a focus on North American buyout strategies and US equities, and what implications this may have.

Key takeaways

- **Comparing public and private equity valuations is not straight forward given the limited data availability for the latter. However, we found that the EV/EBITDA multiple is usable for both and serves as the primary metric for comparison in this analysis.**
- **Historically, public and private equity valuations have moved closely together, with noticeable divergence during the Global Financial Crisis and the recent global pandemic followed by the rate hiking cycle. Valuations appear to have since converged.**
- **The technology sector has been a primary driver of higher valuations in both public and private markets.**

Public versus private equity valuation data

Investors seeking to compare valuations across public and private equity markets face a number of structural challenges. The primary challenge of this exercise is that, unlike public equity's lengthy history and abundance of available data, private equity's shorter history and limited dataset make valuation analysis more difficult and less precise.

Another challenge is choosing one or more metrics that are comparable across public and private markets. While public market investors often look at valuation metrics such as the price relative to earnings, book value, or free cash flow, these metrics are not typically available in private markets.[1] The EV/EBITDA multiple, however, is available for both private and public equity data sets.[2] EV/EBITDA measures the enterprise value of a company divided by earnings before interest, taxes, depreciation, and amortization.[3] By incorporating both a measure of price and a measure of earnings, it serves as a reasonable metric for making this comparison.

Historical valuations

Historically, the valuations for public and private equity have tended to move tightly together (see Figure 1). However, there are two points that particularly stand out for a widening gap between public and private market valuations. The first notable instance was around the Global Financial Crisis ("GFC"), when stock prices declined sharply and then rebounded just as sharply during the recovery. Valuations for buyouts followed a similar pattern, but on a lagged and smoother basis. This behavior is well documented for private equity,[4] as the GPs who own the companies typically do not mark their valuations down or up as quickly as can happen in the stock market.[5]

The second observation occurred more recently. It started with the global COVID-19 pandemic and transitioned into the rate hiking cycle that followed. During this period, the gap between public and private equity valuations grew even larger than during the GFC. But through the full cycle they appear to have since evened out again.[6]

[1] Limited valuation data is reported on private companies as they generally do not report financials publicly and such valuation metrics noted here are seldom reported or made available to data providers on private company transactions.

[2] EV/EBITDA is among the most common valuation metrics to be reported publicly or made available to data providers on private company transactions. This metric is often viewed as the most relevant valuation metrics in buyout deals.

[3] EBITDA is a fairly straightforward accounting measure that is generally applied the same for both public and private markets. However, the definition of enterprise value is more elastic. See the Appendix for more information.

[4] See, for example, "Private Equity Valuations and Public Equity Performance" by Czasonis, Kritzman and Turkington, 2019.

[5] Price changes in private equity tend to be reflected on a lagged basis in reporting, sometimes taking as long as three quarters to reflect equivalent changes in public securities. The result is a "smoothing" of the returns experienced by private equity investors. Source: Meketa, "Private Equity Primer" 2022.

[6] Another factor that may partly explain the gaps between public and private market valuations shown in the chart during periods of market volatility is the fact that the private equity valuations reflect the mean over the course of the year, not a year-end metric.

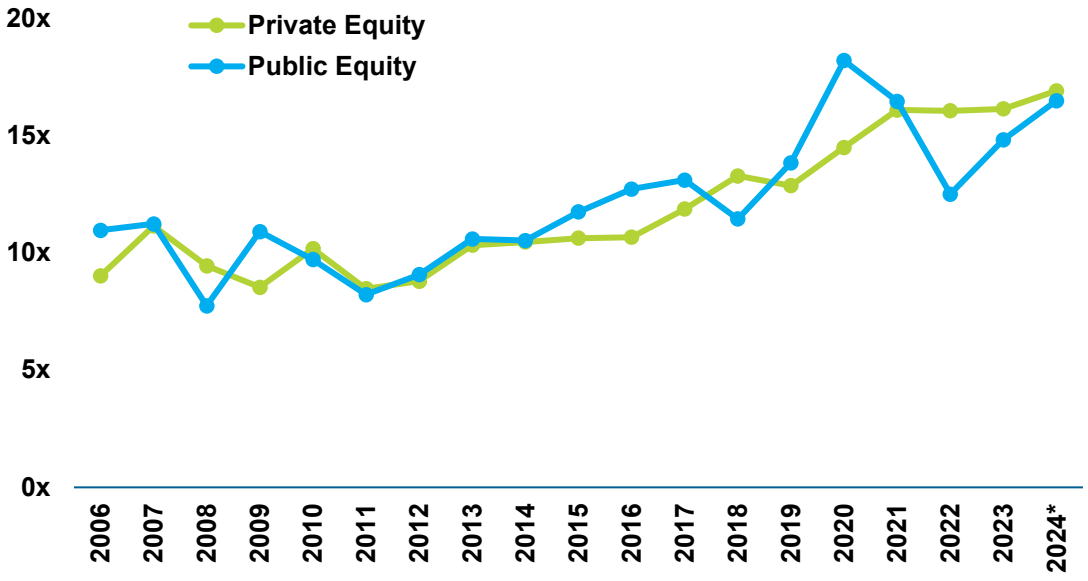

FIGURE 1
Historical Public and Private Equity EV/EBITDA Multiples

Sources: Bloomberg as of 12/31/2024. Preqin as of 9/30/2024, pulled in March 2025. Public equity valuation is the S&P 500's Current EV/Trailing 12-month EBITDA. Private equity valuation is the North American Buyout mean EV/EBITDA.

Note: 2024* indicates that public equity is as of 12/31/2024 and private equity is as of 9/30/2024.

It is important to note that Figure 1 displays the *mean* EV/EBITDA for both public and private markets.[7] Because the mean naturally weighs higher valued stocks/deals more heavily, it may result in the *appearance* of higher overall valuation metrics (i.e., a positive or right skew).

[7] See the appendix for more information about these metrics.

To adjust for this skew, it may be helpful to analyze valuations by comparing the equal-weighted S&P 500 to private equity's *median* EV/EBITDA. In this comparison, the equal-weighted S&P 500 weighs all stocks the same within the index, so the larger cap stocks do not skew the valuation metric higher. Likewise, the *median* private equity valuation takes the "middle" valuation of the dataset, thereby mitigating the impact of a small number of high valuations skewing the overall metric.

As expected, valuations for both public and private equity are lower when using the equal weighted S&P 500 and median private equity buyout metric (see Figure 2). Most importantly, though, is that the data points to a similar conclusion as when comparing mean valuation metrics - namely, that public and private valuations diverged during the global pandemic and into the following rate hiking cycle, but they appear to have since evened out again.

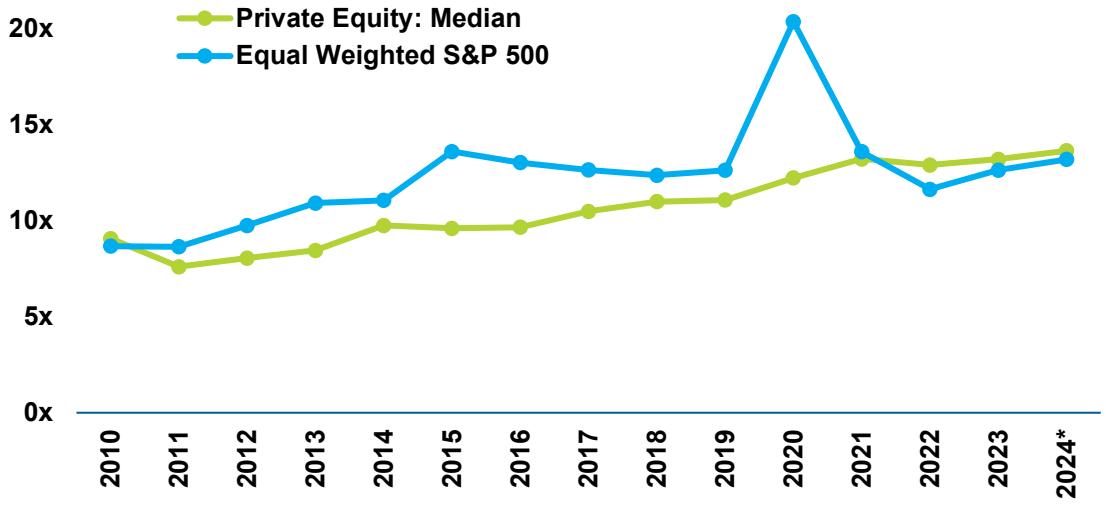

FIGURE 2
Equal Weighted S&P 500 and Median Private Equity Valuations

Sources: Bloomberg as of 12/31/2024. Preqin as of 9/30/2024, pulled in March 2025. Public equity valuation is the equal-weighted S&P 500's Current EV/Trailing 12-month EBITDA. Private equity valuation is the North American Buyout median EV/EBITDA.

Note: 2024* indicates that public equity is as of 12/31/2024 and private equity is as of 9/30/2024.

What is driving differences in valuations?

There might be valid reasons for disparities in valuations between public and private market companies. One of the most obvious of these is differences in industry/sector composition, as different sectors often warrant different valuations from investors.

As shown in Figures 3 and 4, the information technology ("IT") sector has had one of the highest valuations among both public and private equity. This has been consistently the case in private markets, and less so in the (more fickle) public markets.

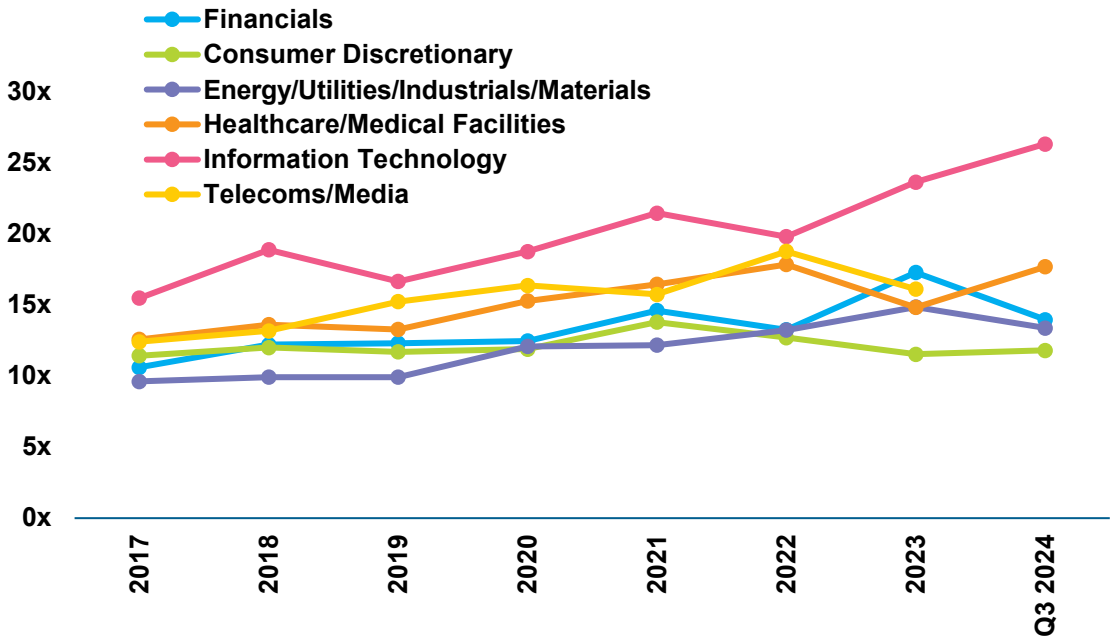

FIGURE 3
North American Private Equity Valuations by Sector

Source: Preqin, as of 9/30/2024, pulled in March 2025, North American Buyout mean EV/EBITDA. Throughout this paper, sectors are defined by the vendors who provide the data, and some sectors have been combined or names shortened. For private markets, the sectors include: Business Services/ Financials/ Insurance Services, Consumer Discretionary, Energy/ Utilities/ Industrials/ Materials/ Natural Resources/ Waste Management, Healthcare/ Medical Facilities, Information Technology, Telecommunications/ Telecoms/ Media.

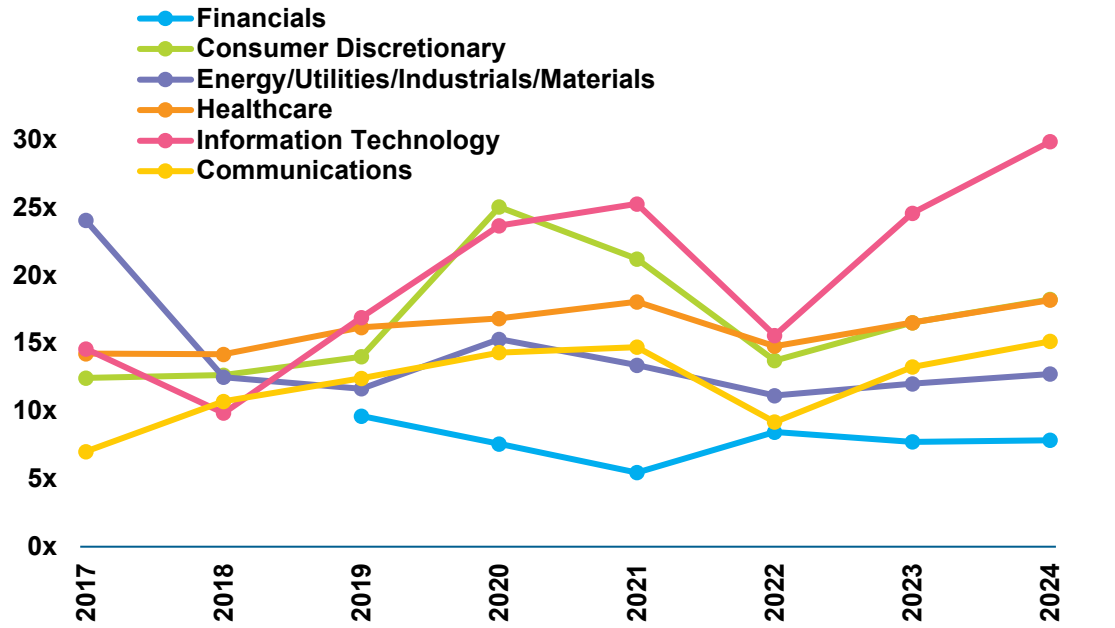

FIGURE 4
S&P 500 Valuations by Sector

Source: Bloomberg, as of 12/31/2024, S&P 500's Current EV/ Trailing 12-month EBITDA. Public markets sectors include: Financials, Consumer Discretionary, Industrials, Energy, Utilities, Materials, Healthcare, Information Technology, Communications. Note that the Energy/Utilities/ Industrials/Materials valuation is an average of the four underlying sectors' valuations.

This raises a natural follow-up question: on a sector-adjusted basis, is the private or public equity market more expensive? Taking the most prevalent sector – information technology ("IT") – as an example, there does not appear to be a consistent enough trend between the two in the IT sector to answer this (see Figure 5). Both the public and private IT sectors have exhibited high growth since 2010, increasing from an EV/EBITDA multiple of less than 10x to more than 25x in 2024. The takeaway from this comparison is not that one is significantly more expensive/cheaper relative to the other, but instead that both IT sector valuations are at historical highs. Moreover, the IT sector is largely responsible for driving up the broader public and private market valuations.

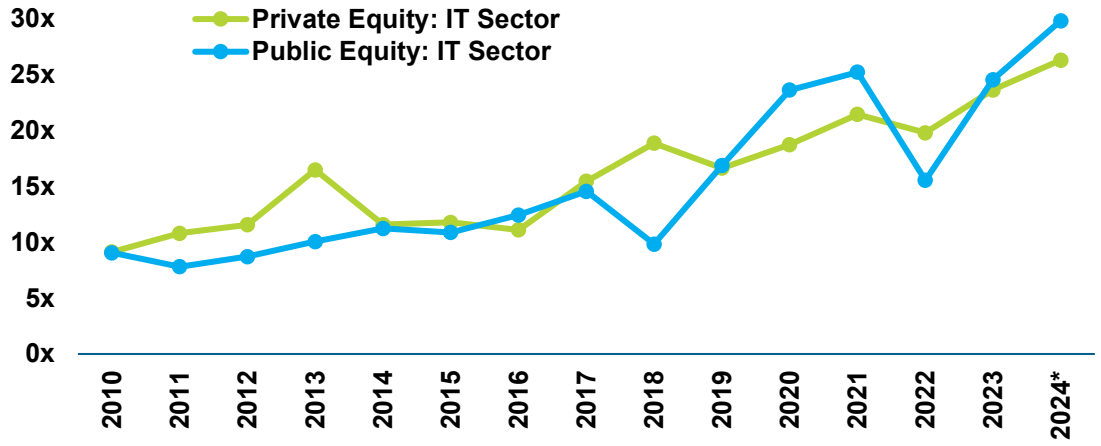

FIGURE 5
Public and Private Equity IT Sector Valuations

Source: Bloomberg, as of 12/31/2024. Preqin, as of 9/30/2024, pulled in March 2025. Public equity valuations are the S&P 500's Current EV/Trailing 12-month EBITDA. Private equity valuations are the North American Buyout mean EV/EBITDA.

Note: 2024* indicates that public equity is as of 12/31/2024 and private equity is as of 9/30/2024.

Not only has the IT sector had the highest valuations of private equity buyout deals over the past few years, but they have also had the most invested capital of any sector (see figure 6). Similarly, IT has comprised the largest portion of any sector in public equity over the same period (see figure 7). Hence, IT has been the single biggest source in driving valuations higher in both the public and private equity markets.

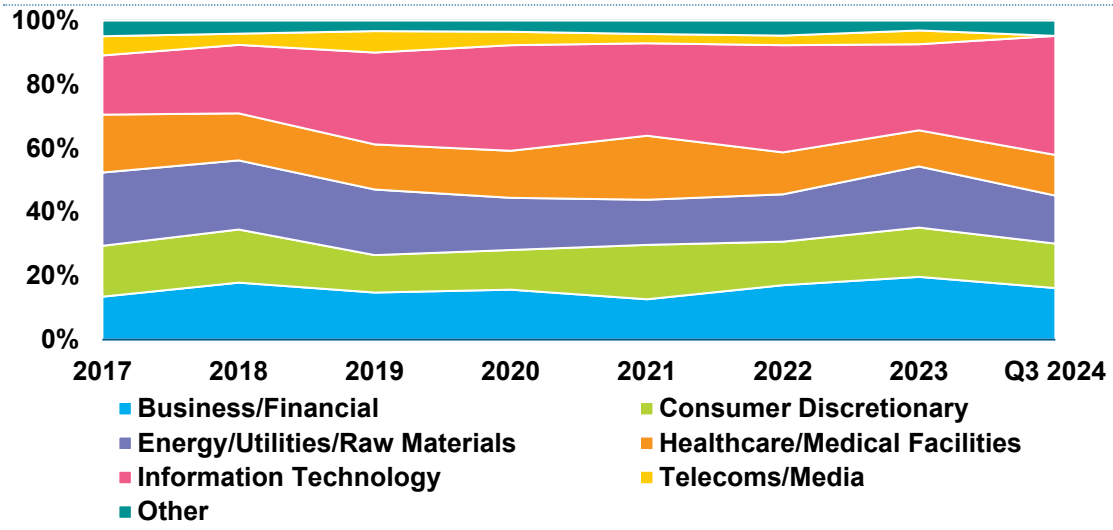

FIGURE 6
Private Equity Buyouts Invested Capital by Sector

Source: Preqin, as of 9/30/2024, pulled in March 2025, North American Buyout Invested Capital. "Other" includes the following sectors: Unspecified, Education Facilities, Government Buildings, Hotels, Logistics, Mixed Use, Niche, Office, Real Estate, Residential, Retail, Transport.

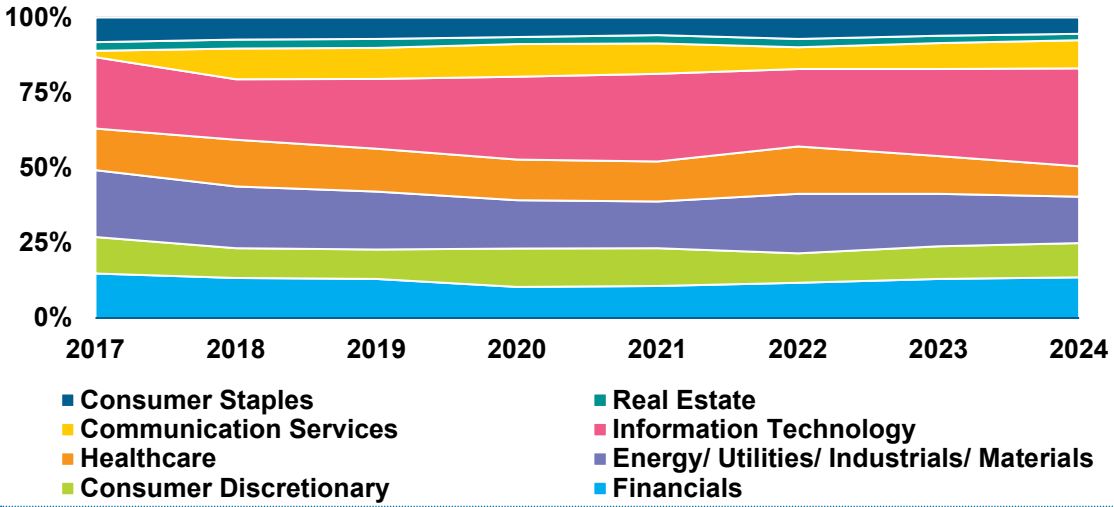

FIGURE 7
S&P 500 Sector Composition

Source: Bloomberg, as of 12/31/2024, S&P 500 Sector Composition.

Conclusion

Our analysis highlights the complexities and nuances in comparing public and private equity valuations. The differing valuation methodologies, data availability, and definitions of enterprise value create challenges in making direct comparisons. However, by utilizing data sources such as Preqin and Bloomberg, we have aimed to provide a reasonable and impartial representation of the valuation trends.

Over the long run, public and private equity market valuations have tended to coincide with each other, implying that private equity valuations are generally reasonable relative to public equity valuations. There have been divergences in valuations, and these periods of separation are primarily associated with major market events, such as the GFC and the global pandemic. As of this writing, the most recent divergence appears to have diminished, and the two markets are trading at similar valuations.

To some extent, the disparities in valuations between public and private market companies can largely be attributed to differences in industry and sector compositions. The major sectors, for the most part, exhibit similar valuations for both private and public markets. Notably, the information technology sector has been a significant driving force behind higher valuations in both markets.

Appendix

Private Equity Data

Throughout this paper, we use Preqin's North American Buyout EV/EBITDA multiples as a proxy for buyout valuations. The Preqin data reflects a proprietary data set of anonymized private deals collected by Preqin and Colmore. It is based on a combination of GP reported data (within LP quarterly reports or provided voluntarily by GPs), data made available through the Freedom of Information Act ("FOIA"), and public filings.[8]

[8] Many other sources reflect a subset of private deals where the valuation multiples (or at least overall deal value and EBITDA amounts) are reported publicly. This is not the case for most deals, so we generally have less confidence in them.

While this data is not perfect and fund counts are low in the early years, there are several reasons why we chose to use it as a proxy. First, Preqin offered the most robust dataset that we could access with an average of 532 deals per year over the past 10 years. Second, when we compared Preqin's North American Buyout EV/EBITDA multiples against the same metric from another source, Hamilton Lane, we found that the two were extremely similar (see Figure 8). Therefore, we feel comfortable using this data as a reasonable indicator of private equity valuations.

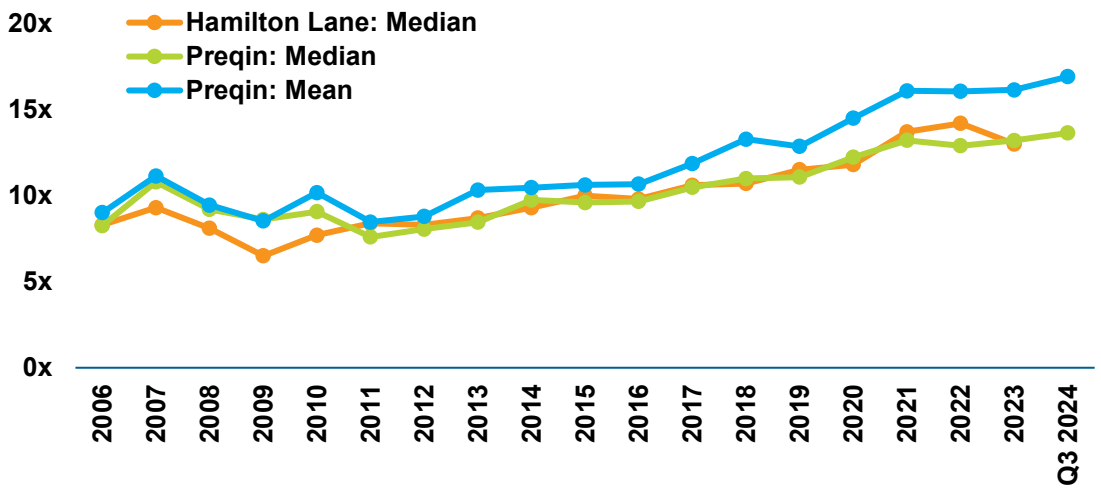

FIGURE 8
Different North American Private Equity EV/EBITDA Sources

Sources: Preqin, as of 9/30/2024, pulled in March 2025, North American Buyout mean and median EV/EBITDA. Hamilton Lane as of 12/31/2023, North American median EV/EBITDA.

While valuation data for public equity is more abundant and accessible, it too can offer difficulties. One such issue is that a metric (e.g., EV/EBITDA) may be different depending on the source and nuanced definition being used by the vendor. Throughout this paper, the metric we use for public equity valuations is the S&P 500's current EV/Trailing 12-month EBITDA from Bloomberg.

One complication when comparing public and private valuations is the level of confidence that should be put into these metrics. There is generally less confidence in private market metrics for two reasons. First, the owners of private market companies (e.g., General Partners) have significant latitude in applying valuation methodologies.[9] Second, private companies are not required to publish their financial statements publicly like listed companies. With such limited data available to collect, the data provided by the data vendors who do so may not be truly representative of the broader market.

[9] Subjective GP valuations are not a meaningful issue for the data analyzed in this paper as the Preqin data used is based on actual deal values on investments made (i.e., not where those investments are being held at).

Another complication is that even though both public and private markets may be looking at the same valuation metric (i.e., EV/EBITDA), they are not always comparing the same thing. On the one hand, EBITDA is fairly straightforward accounting measure that is generally applied the same for both public and private markets; therefore it is generally an apples-to-apples comparison.[10] The definition of enterprise value, however, is more elastic. The enterprise value for publicly traded companies is calculated using debt and market capitalization, which is the total number of shares outstanding multiplied by the company's share price. Because private equity is not publicly traded, there is no market price on which to base its enterprise value. The Preqin data used in this paper is based on transactions reported to/tracked by Preqin over the course of the year, thus reflecting a "market price" at the time of the transaction. Meanwhile public equity's EV/EBITDA ratio is tracking the valuations of the companies within the S&P 500 at year end, creating the potential for a timing mismatch, especially during periods of significant market volatility.

[10] The calculation of EBITDA used in these metrics may be more subjective (e.g., include more "adjustments") for private enterprises than for public companies.

Public Equity Data

As part of our analysis, we looked at public equity EV/EBITDA multiples from several sources such as Bloomberg, FactSet, and CapIQ. These sources all produced EV/EBITDA multiples that generally followed the same trends with some slight variations due to nuanced differences. For example, Bloomberg's Periodic EV/Trailing 12-month EBITDA ratio uses a somewhat different value for the number of shares outstanding. This partially explains why Bloomberg's periodic EV/EBITDA metric does not appear to closely follow the other EV/EBITDA ratios (see Figure 9). On the other hand, CapIQ and FactSet's EV/EBITDA both follow nearly identically to Bloomberg's Current EV/EBITDA ratio. However, Bloomberg's Current EV/EBITDA offered both the most transparent insight into the different metrics' components as well as the most robust historical dataset. Therefore, we chose to use Bloomberg's Current EV/Trailing 12-month EBITDA ratio to proxy public equity valuations.

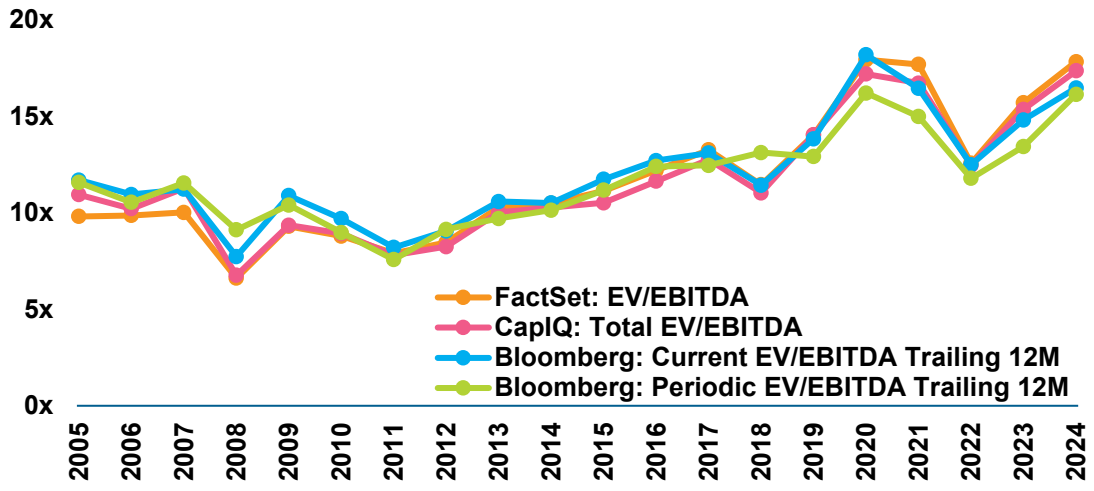

FIGURE 9
Different S&P 500 EV/EBITDA Metrics

Sources: Bloomberg, FactSet, and CapIQ, as of 12/31/2024.

Public Market Valuations

In public markets, the combination of greater concentration in the market in a smaller number of highly priced stocks (i.e., the "Magnificent Seven") has driven up valuations within the S&P 500 index.[11] Evidence for this can be seen by comparing valuations for the S&P 500 on a traditional market value basis to an equally weighted basis (see Figure 10). Valuations started to diverge in 2021, a trend that has increased over the past several years, corresponding with the rise in the Magnificent Seven.

[11] See Meketa's Magnificent 7 whitepaper for more information.

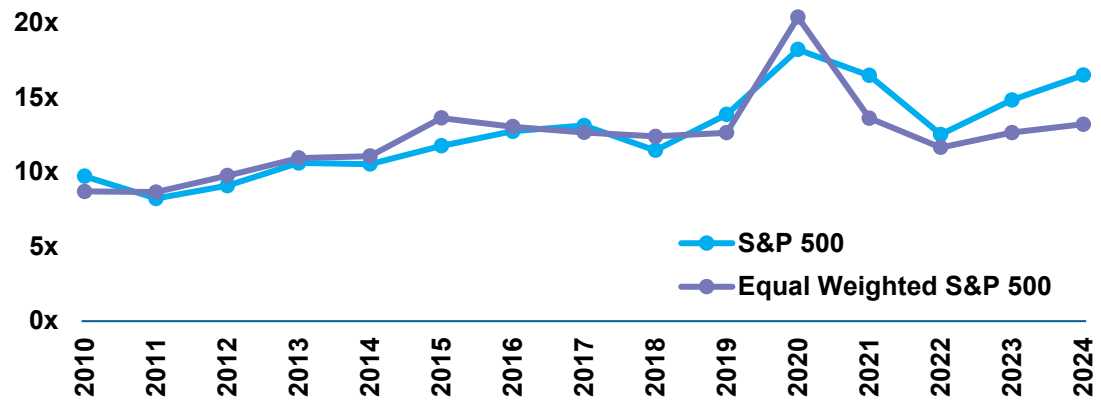

FIGURE 10
S&P 500 and Equal Weighted S&P 500 Valuations

Sources: Bloomberg, as of 12/31/2024, S&P 500 and Equal Weighted S&P 500 Current EV/ Trailing 12-month EBITDA.

Comparison of Other Public and Private Equity Sector Valuations

In addition to the IT sector valuation comparison shown in the body of the paper, comparisons between other public and private equity sectors are shown in the figures below. Note that some sectors (and the sub-sectors within them) may not be exactly the same between public and private equity, which may result in differences between their valuations.

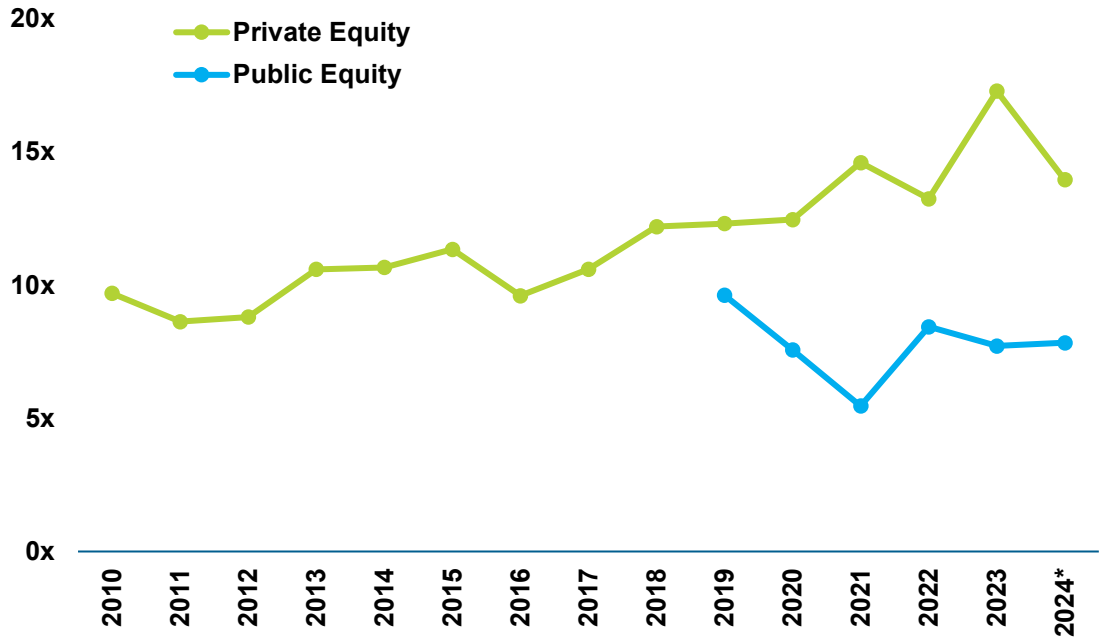

FIGURE 11
Public and Private Equity Business/Financials Sector Valuations

Sources: Bloomberg, as of 12/31/2024. Preqin, as of 9/30/2024, pulled in March 2025. Public equity valuation is the S&P 500's Current EV/Trailing 12-month EBITDA for the Financials sector. Private equity valuation is the North American Buyout mean EV/EBITDA for the Business/ Financials/Insurance Services sector. Bloomberg indicated they do not have consistent coverage for banks to publish index level aggregations using the EBITDA data prior to 2019.

Note: 2024* indicates that public equity is as of 12/31/2024 and private equity is as of 9/30/2024.

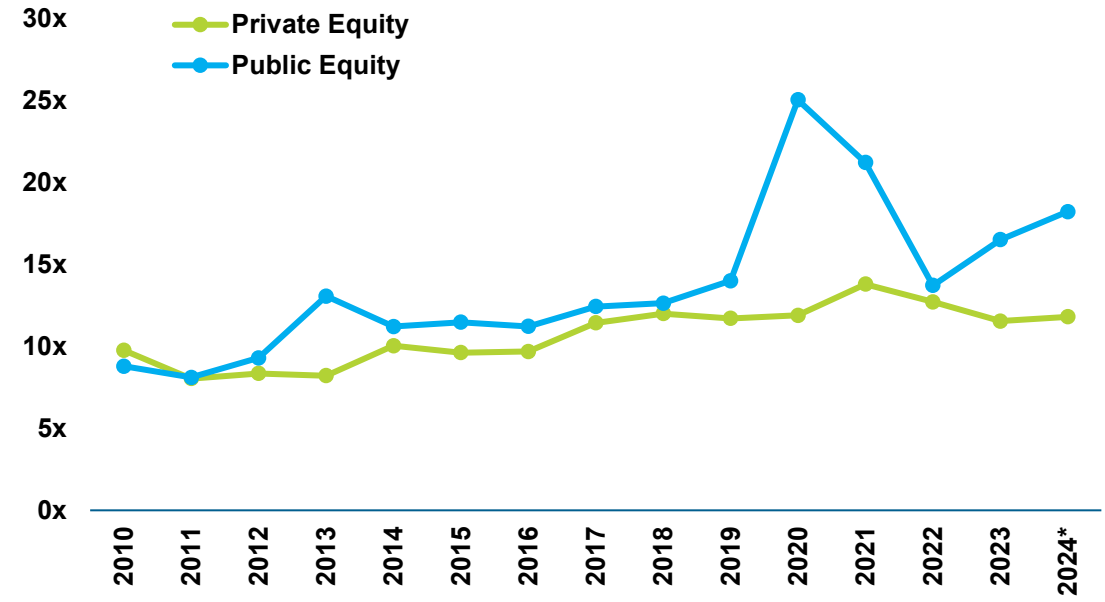

FIGURE 12

Public and Private Equity Consumer Discretionary Sector Valuations

Sources:Bloomberg, as of 12/31/2024. Preqin, as of 9/30/2024, pulled in March 2025. Public equity valuation is the S&P 500's Current EV/Trailing 12-month EBITDA for the Consumer Discretionary sector. Private equity valuation is the North American Buyout mean EV/EBITDA for the Consumer Discretionary sector.

Note: 2024* indicates that public equity is as of 12/31/2024 and private equity is as of 9/30/2024.

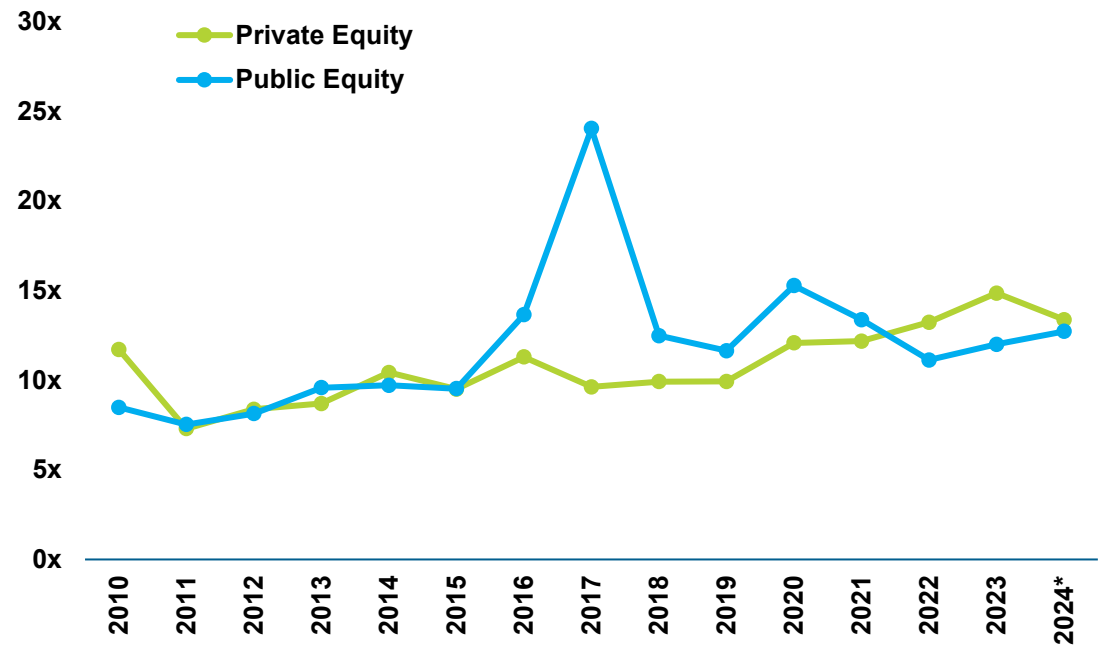

FIGURE 13

Public and Private Equity Energy/Utilities/ Industrials/Materials Sector Valuations

Sources: Bloomberg, as of 12/31/2024. Preqin, as of 9/30/2024, pulled in March 2025. Public equity valuation is the S&P 500's Current EV/Trailing 12-month EBITDA for the Energy/ Utilities/Industrials/Materials sector (note these sector valuations were averaged together for the purposes of this analysis). Private equity valuation is the North American Buyout mean EV/EBITDA for the Energy/ Utilities/Industrials/Materials/Natural Resources/Waste Management sector.

Note: 2024* indicates that public equity is as of 12/31/2024 and private equity is as of 9/30/2024.

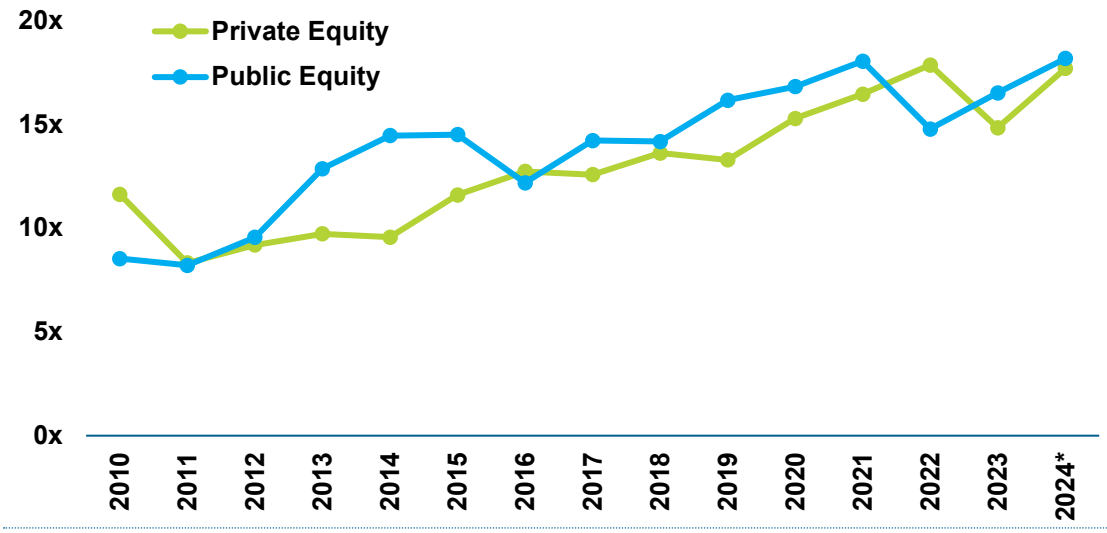

FIGURE 14

Public and Private Equity Healthcare Sector Valuations

Sources: Bloomberg, as of 12/31/2024. Preqin, as of 9/30/2024, pulled in March 2025. Public equity valuation is the S&P 500's Current EV/Trailing 12-month EBITDA for the Healthcare sector. Private equity valuation is the North American Buyout mean EV/EBITDA for the Healthcare/Medical Facilities sector.

Note: 2024* indicates that public equity is as of 12/31/2024 and private equity is as of 9/30/2024.

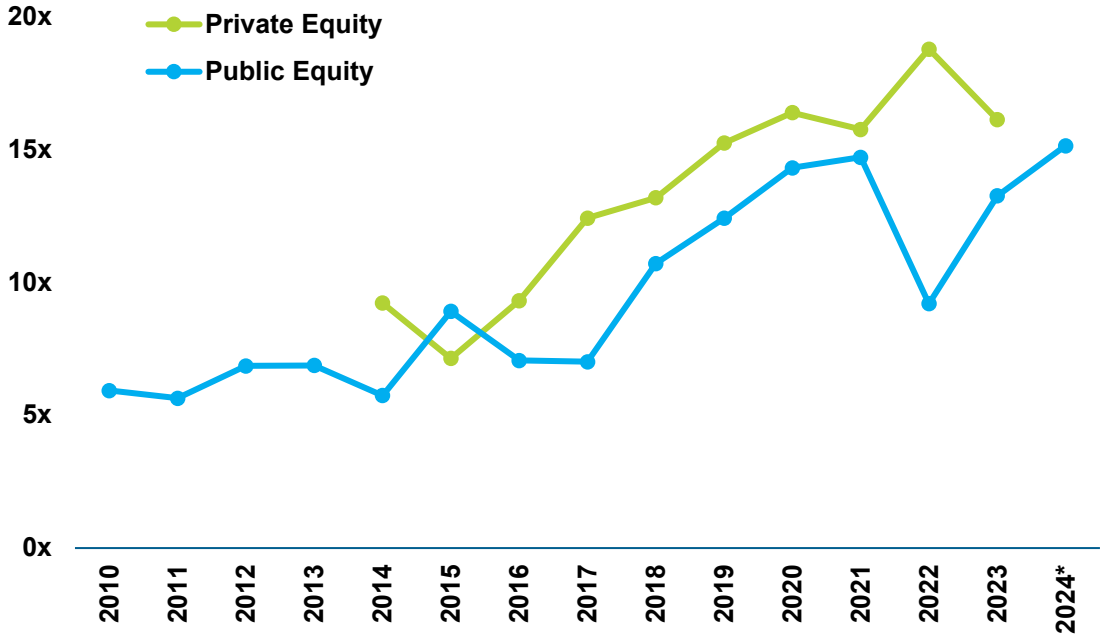

FIGURE 15

Public and Private Equity Communications Sector Valuations

Sources: Bloomberg, as of 12/31/2024. Preqin, as of 9/30/2024, pulled in March 2025. Public equity valuation is the S&P 500's Current EV/ Trailing 12-month EBITDA for the Communications sector. Private equity valuation is the North American Buyout mean EV/EBITDA for the Telecommunications/Telecoms & Media sector.

Note: 2024* indicates that public equity is as of 12/31/2024 and private equity is as of 9/30/2024.

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