# Testing Criticisms of Private Equity:

## Evidence from Bow River Capital

BOW RIVER CAPITAL

**Private equity (PE) has become an increasingly prominent force in capital markets over the past several decades, playing a central role in financing growth, improving operational performance, and facilitating ownership transitions across industries.** However, the sector has faced criticism from media commentators and investment analysts, focusing on recurring themes: private equity is underperforming public markets; private valuations are opaque and inflated; and that PE achieves profitability only by plundering its holdings.

Bow River's PE funds can be useful in illustrating how disciplined investment practices, transparent valuation methodologies, and active operational participation can generate superior returns while simultaneously benefiting employees and management teams of portfolio companies. Allow us to explain.

### 1. "Stock Markets Outperform PE."

Lately, stock markets have indeed been pushed by large-cap tech firms. But with a longer view the illiquidity premium of PE surfaces. Over the past five years through 2025, returns from diversified private equity benchmarks such as the Cambridge Associates US Private Equity Index were roughly comparable to those of the S&P 500, reflecting cyclical factors like slower PE exit markets and valuation resets. However, over a 20-year horizon, private equity has generated meaningfully higher cumulative returns (1090%) than the S&P 500 (586%), driven by active ownership and access to less efficient segments of the market. Importantly, private equity has also exhibited a better Sharpe ratio (risk-adjusted return, even unsmoothing PE return volatility) and a higher Sortino ratio (downside-adjusted performance).

Moreover, the best PE funds far outdistance stock returns. As of Q1 2026 we marked Bow River's Fund II at an internal rate of return of 32% net to our investors. This is 2x the S&P annualized total return and 3x the Dow's results over the 2017–2025 period. Bow River's Fund II performance is in the top decile of its peer-funds (PitchBook Q1 2026, funds with 2017 vintage year and fund size $250m–$750m).

### 2. "Private Equity Valuations Are Opaque and Inflated."

Critics argue that because private assets do not trade daily in public markets, their valuations rely heavily on internal estimates that are disconnected from real market conditions, based on "stale" data, or worse are optimistically manipulated.

Overstated PE valuation marks undermine credibility with investors. Bow River's PE transaction history provides concrete evidence of the inverse: across all portco exits in our two active PE fund portfolios, deal values have registered within an average 3% difference to our marks.

This results from a valuation framework rooted in market-based methodologies, including comparable company analysis, precedent transaction data, and third-party input where appropriate … not accounting exercises or aspirational projections.

### 3. “Private Equity Buys, Destroys, then Profits from the Collapse.”

An emotionally charged complaint about private equity persists: we make money by extracting value from companies rather than creating it, slashing expenses and cutting jobs, leaving businesses weaker or in bankruptcy. Some high-profile restructurings (Toys “R” Us; Red Lobster; Envision Healthcare) have reinforced this reputation.

A common factor in many of these flashpoint cases is the excessive debt burden imposed on companies following PE acquisition, followed by rising interest rates and/or slower than expected company growth that tips the financial statements into distress. Average debt levels in PE transactions in the past two years are above 4x EBITDA and were often 7x or more during the 2020-2023 credit cycle (NBER). Compare Bow River’s average debt-EBITDA across its two active buyout funds at around 2.5x.

While expense control and workforce reductions may be a part of certain turnaround situations, they are not representative of what PE at its core tries to do. Across PE Funds II and III headcounts at our portfolio companies have increased at an average rate of approximately 7% per year (netting out personnel additions due to add-ons) during our hold periods, significantly outpacing overall job growth in the broader economy. Counting all of Bow River’s “control equity” platforms–Private Equity, Software Growth, and Defense–over 6,500 people are employed today, and this number is growing monthly.

Job growth is not merely a social benefit–it is also a financial indicator of business vitality. Companies that consistently add employees are typically expanding operations, entering new markets, investing in innovation, driving profitability, and enhancing enterprise value. Take Bow River’s PE Fund III: our portfolio companies have averaged approximately 5% compound annual revenue growth rate (CAGR) and EBITDA growth of 9% CAGR over our holding periods on an “organic” (net of business add-ons) basis. This comes from sustained improvements in market share, product development, and operational execution.

A defining characteristic of effective private equity ownership is the alignment of incentives between investors and management teams. Whenever we invest, Bow River at the outset establishes equity participation programs to reward key staff on an equal footing as company performance improves. Management teams across our PE portfolios have experienced substantial increases in the value of their equity holdings, typically rising between five and eight times over the course of our investment. In our PE Fund I, management teams took home $135 million in net gains; exits from Fund II have so far delivered over $500 million to our portco teams.

Criticism and scrutiny are healthy components of any mature financial sector, and private equity is no exception. But broad generalizations about the industry must be fact-checked and fail to account for the diversity of outcomes among individual funds. Private equity can deliver strong financial returns while simultaneously strengthening businesses, expanding employment, and rewarding management teams.

This is how private equity investment is done in the Rodeo Region™.

## IMPORTANT INFORMATION

**Rodeo Region is defined as 14 states located across the U.S. Mountain West, Midwest, and the Southwest.**

The views expressed are subject to change and do not necessarily reflect the views of Bow River Asset Management, LLC (d/b/a Bow River Capital). This document is for informational purposes only and does not constitute a recommendation or investment advice and is not intended to predict the performance of any investment or market. It should not be construed as advice as to investing in or the buying or selling of securities, or as an activity in furtherance of a trade in securities.

This is not a solicitation or offer for any product or service or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by Bow River Capital or its affiliates. Nor is it a complete analysis of every material fact concerning any market, industry, or investment. Data has been obtained from sources considered reliable, but Bow River Capital makes no representation as to the completeness or accuracy of such information and has no obligation to provide updates or changes. Bow River Capital does not accept any responsibility and cannot be held liable for any person's use of or reliance on the information and opinions contained herein. The views expressed herein may change at any time after the date of this publication. There is no guarantee that any projection, forecast or opinion in this material will be realized. **Past performance is not a guarantee of future results.**