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Coronavirus and private equity

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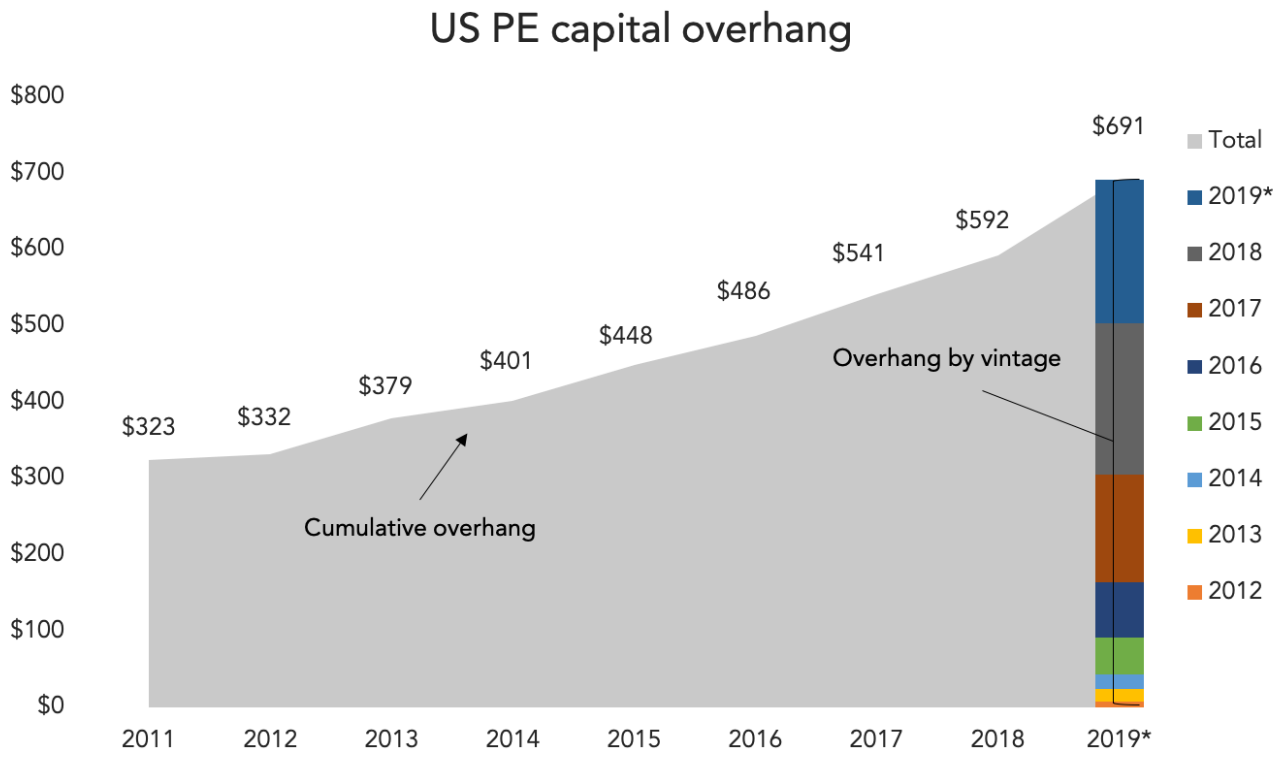

Our 2020 PE predictions did not include a potentially global pandemic, which continues to roil the markets. It's impossible to know where things will go from here—at least as panics go, this brings flashbacks of 2008 but feels fundamentally different. For private equity, the only playbook to consult is 2008-2011, since the industry wasn't around during the Spanish Flu of 1918. That virus is itself a poor case study in general for the financial markets, which were minimally impacted by the pandemic. World War I was still dominating the headlines but victory was in sight at that point. Believe it or not, Americans were feeling pretty good during the last outbreak. We've been through this type of thing before but can't learn much from it.

What happens next for private equity? Fundraising will go down—travel restrictions and a lack of in-person meetings don't lend themselves to more of that. The data might ironically belie that—we might see more fund closings over the next couple quarters as managers wrap things up where they are. Even so, most firms don't necessarily need it at this point. The industry is inundated with dry powder—arguably more than it knows what to do with—and has been slogging its way through a pricey environment for years now. Less time on the fundraising trail—it's mandatory!—means more time and effort on current investments. Portfolio companies under PE wings might fare better than others, if the financial crisis offers any lessons. 2008-2011 was a good time to have guaranteed financing and able handlers at the wheel. It's easy to forget, but the PE industry handled the financial crisis and its aftermath very well, and they deserve credit for that. Would-be sellers will be apprised of that if the market continues down this path.

Which leads to a second possibility—deal activity might actually tread water in 2020, especially if companies start to become distressed over the next couple quarters. The capital is certainly there, and sentiment is pointing that way. The recent SuperReturn conference in Berlin drew in the usual bigwigs, and they sounded optimistic. Leon Black said "a downturn would not be a bad thing for Apollo," and Carlyle's Jason Thomas is keeping "an eye out for potential disruptions and we may already be seeing some of that come to pass." It's easy to be cynical at times like these, but keep in mind that private equity is something of a safe haven in chaotic environments.

Finance aside, wash your hands! Some investments are worth more than others.