Private Debt Intelligence – 4/6/2020

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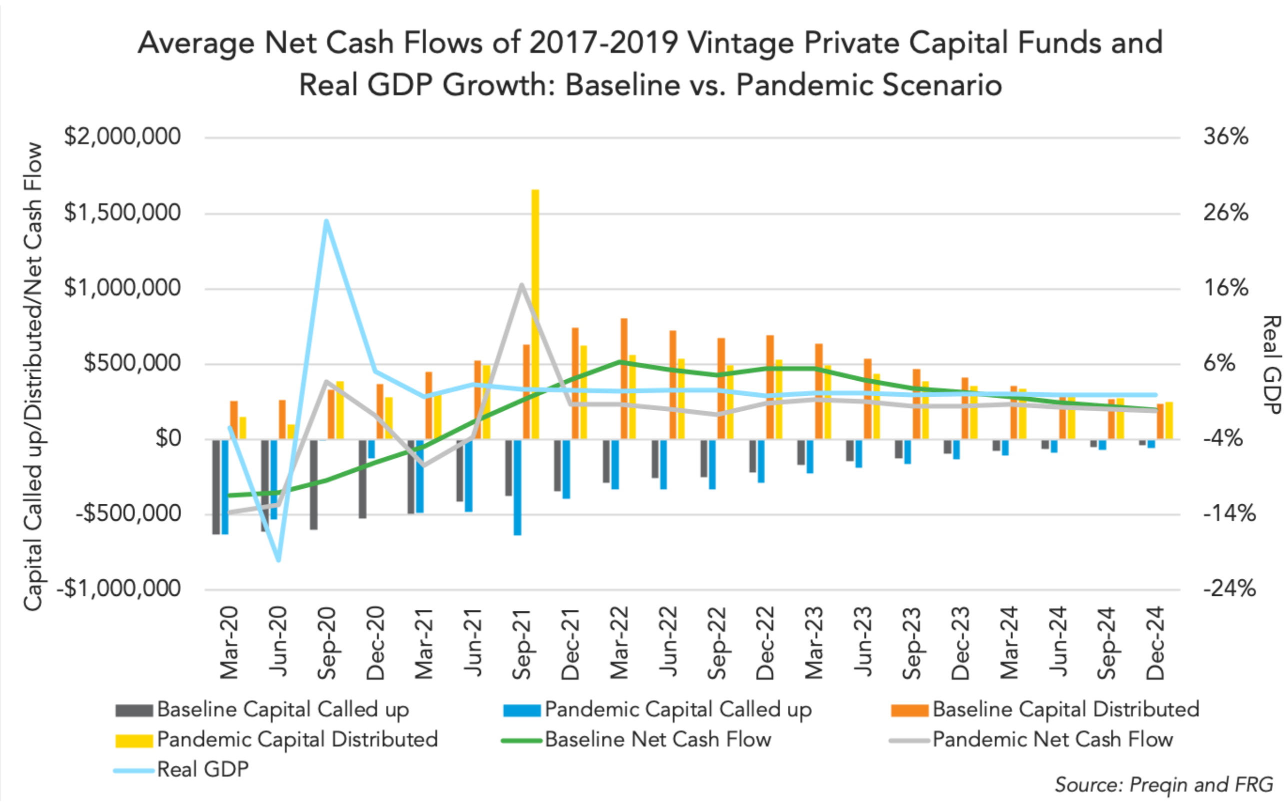
The impact of COVID-19 on capital calls, distributions, and net cash flows

Chart



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A Preqin-FRG forecasting model shows that capital calls will surge in 2021 as the global economy rebounds. Focused on 2017-2019 vintage private capital funds, the model suggests that, as a result of COVID-19, and assuming the global economy undergoes a significant but brief recession, and then recovers, fund managers will respond in two stages. First, they will sharply reduce the capital call and distributions in H1 2020, then generating net positive cash flows in H2 2020. And second, they will accelerate capital calls and distributions through the latter half of 2021 as asset prices and deal volumes rebound.

As a consequence, for the 12 months ending June 2021, 2017-2019 vintage funds will reduce capital calls by 38% and reduce distributions by 19%. Deal activity is expected to mute, and distributions to be delayed as fund managers will be waiting for valuations to fall and greater economic certainty. At the same time, GPs that would otherwise look for an exit hold onto their assets to avoid selling in a downturn.

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