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MID-MARKET PRIVATE EQUITEERS UPBEAT DESPITE ECONOMIC SLOWDOWN

Overly loose credit markets rank among the biggest concerns for dealmakers.

Mid-market private equity professionals in the UK are optimistic about their prospects for the next five to ten years, even though many expect the economy to slow.

A survey of 223 UK mid-market management teams, private equity investors, debt providers and advisers conducted in September by consultancy CIL found that 54 per cent of respondents are negative on the outlook for the economy over the next 18 to 24 months, with a combination of Brexit and slowing growth weighing on sentiment. Close to half (48 per cent), however, are more positive about the outlook for the next decade.

Almost nine out of ten respondents felt either positive or neutral about the investment environment for their business or portfolio.

The survey did suggest that respondents are concerned about credit markets, with 62 per cent saying markets are too loose versus just nine per cent saying they are too tight.

CIL also discovered that deploying capital remains tough, with almost three quarters (73 per cent) of those polled saying that we are in a seller's market, compared to just nine per cent saying it is a buyer's market.

"Monetary policy remains supportive, investors have money to spend and life goes on. There is concern over the short-term outlook but longer term our clients back themselves and the UK generally," CIL partner Giles Johnson said.

Idinvest launches €300m asset leasing fund

Idinvest Partners has launched a new €300m fund dedicated to asset leasing.

Idinvest SME Industrial Assets (ISIA) will provide European companies with funding for the acquisition of production tools. It will offer an average of €5m per deal for a duration of five to seven years, focusing on the industrials, consumer staples, healthcare and materials sectors.

The firm has raised an initial €150m from institutions including the European Investment Bank and the European Investment Fund and is targeting a total of €300m. It will seek to finance around 70 projects in France, Spain, Benelux and Germany.

The firm said that increased regulation and a more punitive credit environment has driven demand for customised asset financing products. The ISIA fund will enable companies to manage cash flow while investing in modernised production methods.

The strategy is being led by partner Sylvain Makaya and Fabien Afchain, who previously worked at GE Capital and Siemens Finance.

Lexington Partners closes mid-market secondaries fund

Lexington Partners has closed its fourth mid-market secondaries fund at $2.66bn (€2.26bn).

The firm began raising at the start of the year and surpassed its $2bn target. More than 40 per cent came from investors in the US, 30 per cent from backers in Asia and the Middle East and 20 per cent from European LPs.

Lexington Middle Market Investors IV will acquire positions in growth capital, small- and mid-cap funds on a global basis. It will also target GP-led transactions and restructurings.It has completed 15 transactions from the vehicle thus far, equating to 22 per cent of the fund's capacity.

The firm estimates secondaries volumes to surpass $40bn this year with GP-led processes by high-quality managers playing a key role in the sector's continuing growth.

In addition to its mid-market strategy Lexington runs global flagship and emerging markets funds. Its eighth principal fund closed in April 2015 at $10.1bn and was the largest ever secondaries fund at the time.

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Are you ready for the Black Swan?

For those who remember the market drops of 1987, 2000 and 2007, a quick look at current affairs seems eerily familiar. The innocent bliss before the hard reality of economics sets in. Almost ten years of ultra-low interest rates and loose monetary policy have successfully reinflated not only economies but also confidence and, in some cases, egos.

Private equity dealmakers are concerned about the current froth. The tsunami of money seeking higher returns has run smack into maturing deal markets that have less attractive goods on offer. The result is prices which leave fund managers scratching their heads. How will a decent return be generated at today's full-pricing? That's a good question, even in the best of times. However, these are not the best of times.

Developed and emerging markets are facing a slew of risks, any one of which could derail the best laid value growth plans and blow out returns. With the VIX index touching historic lows in the summer, leading thinkers including Robert Schiller, Ray Dalio and Nouriel Roubini are sounding the alarm that larger risks are lurking below the surface and are not yet reflected in valuations.

As always, the stresses have grown gradually. Income inequality, flattening productivity growth, debt, populism and rising interest rates are moving in an uncomfortable direction. As with previous setbacks, the trigger for a reset may seem insignificant at first. But what happens if the trigger is big this time? Geopolitical tensions may be the next "Black Swan" event – those things that should never happen, but always do. How will private equity react?

Scenario planning was in vogue following the last crisis. However, it's become a lost art in the drive for growth. What is the plan when top-line drops 20 per cent in a month? Or even 50 per cent? Are your portfolio companies prepared?

With these kinds of declines, speed is of the essence and there won't be time for leisurely off-sites and decisions neatly fitting in the current board schedule. The winners in the last downturn were those firms that had leading indicators to detect the small signals, and who reacted quickly. They were the first to bounce back and take share from less agile competition.

But for this, leaders must have a Black Swan plan ready. Which projects would you stop if you had 50 per cent less investment capital? What cost and headcount can be reduced without jeopardising long-term strengths? How to retain the most talented employees, who are at the greatest flight risk? Firms that have worked through the difficult scenarios and have their pre-approved plans will have a critical headstart over slower moving competitors. They will also benefit from making tough decisions in rational leisure and not under duress.

No matter what business you are in, the coming Black Swan will impact you. Preparing ahead of time makes both dollars and sense.

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Hard Facts for the Soft Factors