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Why Private Equity Firms Are Not The Same Today As 10 Years Ago

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The landscape for private equity has undergone a dramatic change during the past decade. As the role of private equity has shifted, so, too, have people's understandings o private equity and how it works. An article in *Institutional Investor* cited an EY report that called the growth of private equity "one of the most profound shifts in the capital markets since the 19th century." It may sound hyperbolic, but it's hard to understate th importance of private equity and its impact on world markets.

For middle-market companies and those expecting significant growth, private equity h become the business strategy of choice compared to going public. What has changed about private equity? And why is it experiencing the renaissance it has since the turn o the century?

More Cash Than Ever Leads To More Deals

One of the most immediately noticeable features of today's private equity market is the sheer volume of capital available. Private equity dry powder (which is the amount of cash reserves or other liquid assets available to a business) is reaching record highs. Data provider Preqin estimates there is $2.44 trillion in dry powder waiting to be spen on leveraged buyouts, real estate assets and more.

As a result of this surplus of capital, more private equity firms are inclined to make dea than ever before. The value of leveraged buyouts during the first half of 2019 soared to an incredible $256 billion. According to data by Refinitiv, that's enough to make the start of 2019 the second-largest first half on record.

It's also important to note that the amount of leverage available from private lenders supporting private equity deals has also increased dramatically. More lenders are looking for increased equity, as opposed to debt, to offset any potential risk with their investors. Thankfully, the plethora of dry powder means that increasing the amount of equity is no obstacle for many firms. Regardless of the amount of equity involved, the enthusiasm for buyouts continues to grow unabated.

A large part of this increased interest is the buy-and-build strategy. While buy-and-bui has been a hallmark of private equity for a long time, it has become especially popular i recent years. Buy-and-build is the process of purchasing an established company and then using that company to acquire other, smaller companies and merging them into th overall group. The result is a boost in sales that also increases the overall valuation. Th also provides private equity firms with more access to even larger financing, which increases their competitiveness. Unsurprisingly, many of these smaller businesses bein acquired are middle-market companies.

Private Equity Goes All-In On The Middle Market

Another shift I've seen in private equity has been a growing interest in middle-market companies. There tends to be a mistaken understanding among middle-market busine owners that private equity investors are only interested in investing in large companies or so-called unicorns. Nothing could be further from the truth. The middle market represents some of the greatest opportunities for private equity investment.

While much of the attention tends to be focused on high-profile private equity acquisitions, middle-market companies are presenting themselves as attractive options to investors. As the managing partner of a middle-market investment bank, I deal almost exclusively with middle-market companies and their owners. Having guided many businesses through both buyouts and acquisitions, I am more than familiar with the private equity power boost and the positive effect it can have on these companies.

Middle Market Valuations Create Attractive Opportunities

There are many more companies occupying the middle market, which features less competition and an opportunity to still do business on a personal level. There are an nearly 200,000 businesses occupying the middle market, while there are only a few thousand companies that would qualify as "big business." What you get is more opportunity for investment for those willing to look and the opportunity to find returns on those investments. Many people may be surprised by the impact of private equity o the economy of the United States. Did you know that U.S. companies backed by private equity grew jobs by almost 84% between 1995 and 2013?

It's much more than tech companies attracting the attention of private equity firms. Many other franchise companies people use every day, ranging from plumbing services like Mr. Rooter to fitness centers such as Orangetheory, are owned by middle-market private equity firms.

With money to spend and an insatiable hunger for making deals, it's arguably the most exciting time for private equity since before the financial crisis.

The Next Decade Is Promising For Private Equity

The 2010s were an incredible journey in the world of private equity. The amazing amount of capital flooding into the industry combined with the rise of secondary markets created an ecosystem uniquely situated for investment and growth. As more investors recognize the value and importance of the middle market, it's difficult to see things going anywhere but up from here.

Who knows what the Roaring '20s will bring for private equity? There's a very real possibility that the market is poised for even more growth in the next 10 years.

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