

Katharina Lichtner **Personal view**

Opportunities arise as private equity begins to emerge from its slumbers

The financial crisis and subsequent collapse of the lending markets brought turmoil to private equity. Valuations suffered from high volatility and the industry, for most of 2009, saw an almost complete standstill in investment and divestment activity.

Since then, activity has slowly started to pick up. The fourth quarter of 2009 and the first quarter of 2010 saw an increase in exits with subsequent distributions. Investment activity, while not yet robust, is rising due to an improved lending environment. During the past 18 months, many managers have postponed fundraising. Now, these managers are planning a return to market and investors are preparing to commit money again.

Consequently, many are looking ahead. Although the industry is still patchy and volatile, there are several very attractive opportunities available.

In buyouts, the overriding theme is value creation through operational enhancements, executed by managers with a proven track record. The mid-market space is therefore providing opportunities as investments in this area typically use less debt in relative, as well as absolute, terms. Smaller companies leave more room for operational improvements and the top line can be grown more easily. Furthermore, the mid-market is less efficient, with a high number of inexperienced sellers so there is still room for attractive pricing.

While the large buyout segment is more difficult, it may see a renaissance. A large volume of maturing credit lines will result in many large companies

Although the industry is still patchy and volatile, there are several very attractive opportunities available



Katharina Lichtner is managing director and head of research, Capital Dynamics

refinancing their debt over the next 18 to 24 months. Companies unable to roll over all their credit lines or support the same level of debt, will sell larger divisions to fix their balance sheets.

The secondary market remains of interest. The big sell-off of large portfolios has remained below expectations, but the mid-size market is very attractive. Instead of selling off large parts of their portfolios, many investors continue to adjust them, providing attractively priced individual fund opportunities to the secondary market.

Venture is similar to previous years. Investments are only attractive with top-decile managers and should only be made if access to the top players can be achieved.

In emerging markets, Asia remains a focus as it has weathered the crisis well and seen a faster recovery, while an emerging hot area is Latin America, particularly Brazil. Brazil offers attractive macroeconomic parameters for private equity, with steady growth of consumer markets. In addition, upcoming sports events such as the World Cup in 2014 serve as a positive catalyst across various industries, complemented by strong natural resources. This, paired with a growing and high quality investment community, offers ample opportunities.

Lastly, areas such as clean energy infrastructure are emerging as real asset-based investment themes, due to a combination of the security of infrastructure investments and higher return potential of private equity in a space that will gain importance.