THOMPSON COBURN LLP

insights

TYPES NOT MAPPED YET October 23, 2023 | TTR not mapped yet | David J. Kaufman

Show me the money!

As companies continue to falter, private equity-backed businesses look to their sponsors to prop up their balance sheets through equity capital infusions. When firms acquire these businesses initially, they are unable to incur the levels of debt they have in the past, reducing the previously received outsized returns.

With reduced returns comes reduced risk, though, massively disrupting the private capital and debt markets. Lower equity profits also narrow the margin between equity and debt returns. With lower asset values, fewer private equity firms are selling their portfolio companies, leading to reduced deal flow. Reduced deal flow means other private equity firms need to be more selective in choosing which deals to bid on in any competitive process, which can lead to fewer and thus lower bids for any specific company. Thus, these higher rates can have broad impact on the deal economy.

Private-equity firms are being forced to spend more money to keep the companies they own alive, as rising interest rates disrupt the buyout industry's debt-heavy playbook.

With credit costs at the highest level in years, companies that provide debt for private-equity deals are asking firms to chip in additional equity when they look to refinance, say people who research the leveraged-finance markets and advise private-equity firms on transactions.

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