The Force Awakens – Churchill 2Q Private Equity Survey (Conclusion)

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Our recent survey of 164 private equity executives revealed improved confidence in both the M&A environment over the next twelve months as well as the exit activity emerging from that. Digging further, we see several interesting dynamics about their financing partners and the current strategies employed to maximize deployment and valuations.

As we've noted in the past, "relationships" and "speed and certainty" remain the top priorities for GPs when selecting private capital providers. Amid the see-saw elements of tariffs, rates and other macro issues, this is critical to ensure sellers have confidence their chosen buyers can close. Doing the last deal, and the familiarity with the sponsors' credit agreement requirements, is often key to winning the next deal.

"Price/terms" was the third most popular consideration. This is important for investors to understand why private credit spreads and financial covenants are stickier than those of liquid alternatives. When headline risks force public credit to the sidelines, or (in a frothy market) push yields lower and loosen terms, investors become challenged.

"Flexibility" and "hold size" are next as PE priorities assessing financing partners. Both matter (and are related) when competing with banks in the broadly syndicated market. With investment banks running increasingly competitive auction processes for a larger deals, having the ability as a buyer to structure complex debt packages is a distinct competitive advantage.

Over the past two years, 95% of respondents use senior lending in financing buyouts. The next most popular vehicle (85%) is equity co-investment, followed by junior capital (60%) and continuation vehicles. Going forward, most PE leaders plan to keep current strategies, while 36% will increase senior lending and 33% will expand use of continuation vehicles (CV).

As a reminder, CVs allow GPs to keep control of prized assets longer, rolling them into a new fund with new investors. Existing LPs who wish to cash out can do so without waiting for loans to be paid off or refinanced. Of the respondents who used CVs in the last two years, 88% did so to hold onto trophy businesses and offer LP liquidity

More than two-thirds (68%) of PE firms using continuation vehicles executed single-asset transactions, highlighting the focused nature of this approach.

To the question, "If the M&A environment improves and interest rates decline, how would that impact your likelihood of pursuing a continuation vehicle?" 71% of respondents answered, "No change," with 21% saying it would decrease their interest, and 9%, increase interest.

No surprise, then, why investor sentiment reflects this support for private capital, with appetite consistent across variety of institutional and wealth clients. The best managers delivering solutions to PE sponsors can do the same across a broad risk/return spectrum to investors. The key is winning deals and accessing markets while staying investor-centric in asset selection.