



Bauerle's Bank Notes

Cash Looking for a Home

December 15, 2014

My partners Weiss, Westberg, Keevican and I spent three hours on each of three evenings last week speaking to and with certified public accountants who attended our program, "Ready, Set, Sell: Helping Your Client Sell the Business." Sponsored by Penn State University, we offered evidence, empirical and anecdotal, that there has never been a better time to sell a middle market business.

Our Renaissance Partners investment banking boutique daily receives a dozen or more private equity firm inquiries seeking companies to acquire. The proprietary database Renaissance Partners has built enables the matching of suitable buyers and deal funders to companies whose owners desire to sell.

Total dry powder (private equity funds available for investment) now tops \$1 trillion. There are 3,200 PE funds in the U.S., including 122 based in Pennsylvania. The Commonwealth ranked third in the nation for the largest PE investment inflow last year and has the fifth largest share of PE-backed companies. Pennsylvania is home to 1,019 of these companies, slightly less than 10% of the total.

Among the largest PE investors in Pennsylvania is the state's Public School Employees' Retirement System, which has allocated \$9.2 billion of its \$49.2 billion of assets under management to private equity investment. The State Employees' Retirement System's commitment is equally meaningful, \$6.1 billion of its \$27.4 billion of assets under management. Renaissance Partners' experience in deals we have done is that PE fund managers who run PSERS and SERS money are *thrilled* to have the opportunity to put that money to work in local companies.

Banks too have ample capital now and middle market M&A represents one of the best opportunities available to earn respectable returns on assets and equity. Meanwhile, the zero interest rate policy of the Fed makes it possible for buyers to pay more than if rates were (or become) higher.

To describe the current banking environment, I shared data from the Private

Equity Growth Capital Council, a trade organization, that shows business development companies (BDCs) and collateralized loan obligation funds (CLOs) dominate the market for leveraged loans. Banks' share of that market is a mere 20% due to banks' more conservative credit culture and regulatory regime. Total leveraged loan issuance in 2014 is expected to reach \$613 billion according to JP Morgan and Wells Fargo.

As we reported in this space last week, financial industry regulators are redoubling their efforts to trim the market's sails when it comes to leveraged lending. In response, the Loan Syndications and Trading Association recently sued the Fed and the SEC seeking to block implementation of a rule that would require CLO funds and other shadow banking enterprises to retain 5% of the risk of the portfolios they originate. The funds' sponsors assailed the rule as "arbitrary, capricious and an abuse of discretion," the legal standard required to be overcome for them to prevail. Ironically, the 5% stake the regulators desire the funds to hold corresponds roughly to the minimum capital requirements applicable to banks under existing.

For business owners, the current environment is a Goldilocks moment with lots of cash looking for a home. How long it will last is beyond knowing. For those who desire to capitalize on the opportunity, Renaissance Partners stands at the door, ready to usher them in to this new prosperity.

Renaissance Partners' website reproduces the slides portion of the presentation we made at the Penn State continuing professional education program last week. [RP presentation](#).

This will be our last installment of "Bauerle's Bank Notes" for 2014. We value your readership and patronage of our businesses. We wish you all a healthy and joyful holiday. We hope to see more of you in the new year.

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