



# **Bauerle's Bank Notes**

## **Earth, Air, Wind, Fire, Water**

**April 16, 2015**

Debt and equity are as elemental in business capital formation as the elements in the title above are in human life. Public equity markets are a creation of the 20<sup>th</sup> Century. Today there are few working Americans who do not participate in them through a 401-k plan or otherwise. Widespread ownership of companies by private equity funds is a more recent phenomenon, dating to the 1970s. Today there are more than 3,000 private equity funds in the U.S., \$1 trillion of capital is available for investment and more than 10,000 U.S. companies are owned by funds. That is 20 times the Fortune 500.

Banks have become accustomed to financing private equity fund-owned companies since the leveraged buyout boom of the 1980s. Activity has risen and fallen with the business cycle, coming back stronger in each cycle than the last. Bank regulators and the SEC are currently waging a campaign to reign in the use of financial leverage by PE-sponsored companies based on several cycles' unhappy experience with over-levered enterprises.

For our May 13 program of the Black & Gold Financial Team we will feature a panel of experts in a special two hour dialog about private equity, titled "Reshaping America's Middle Market: Private Equity's Growing Role in Our Economy." Our speakers will address private equity's growth to a \$1 trillion pool of funds available for investment, the impact of that on middle market m&a, and private equity's relationship to debt financing provided by banks and other institutional debt sources. At this writing our panel includes Bill Wangerin, long of J.P. Morgan's private equity group, Jason (Jay) Lhota of Confluence Strategic Partners, which regularly serves PE-sponsored companies in need of an operational tune-up, and Lee Keevican, of Renaissance Partners, our boutique investment banking enterprise that has been putting together M&A deals with private equity sponsors since 1986.

Our panelists will address a series of timely topics, including the following:

1. Is there too much private equity chasing too few good deals? If so, what are the implications?
2. Private equity funds have common features. 2 and 20 fee structures. 10 year investment horizons. How are funds different and what does that mean for companies

and the banks that finance their working capital and term debt needs?

3. How will regulatory initiatives designed to curb leverage affect private equity investments and m&a markets?
4. How will trends like the following affect U.S. private equity investment?
  - a. Price volatility in energy and energy-related industries.
  - b. Economic contraction in Eurozone and slowing demand in Asian markets.
  - c. Build-out of the shale gas supply chain economy.
  - d. Development of smart manufacturing.
  - e. Continued emphasis on service employment in the U.S.
5. How, and how well, do private equity funds deal with companies they own that are struggling?
6. How do nontraditional lenders like BDCs and CLO funds relate to private equity funds and vice versa? What impact does that relationship have on traditional lenders like banks?
7. Is a shakeout in the private equity business coming? If so, what are its implications?

Our panelists' response to these and other questions will provide an especially lively and informative session that you will not want to miss. Too, you and they may identify business opportunities of mutual interest and benefit! Please plan to join us May 13, 2015, from 9:00 to 11:00 a.m., at the Cranberry Woods Marriott for this exciting program, the finale for our 2014-15 Black & Gold Financial Team season. Reserve your place now by contacting us at [jbauerle@kwbhlaw.com](mailto:jbauerle@kwbhlaw.com) or [kfelsing@kwbhlaw.com](mailto:kfelsing@kwbhlaw.com). Thank you.