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Financial News: In private-equity survey, dark skies are seen ahead

By Oliver Smiddy
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The current financial crisis will be longer and deeper than even the most bearish members of the securities industry have been predicting, according to a survey of sentiment in Europe's private-equity industry.

The preliminary results from the third annual survey of the buyout industry by Private Equity News, a sister publication of Financial News, showed that one-quarter of buyout firms are thinking of laying off employees, and just under half thought the effects of the credit crisis would be felt for years or would change the industry forever.

Another 53% said the downturn would last from one to three years. Previous editions of the survey have proved among the most accurate in predicting the future path of the industry.

Respondents in the last two annual surveys had foreshadowed the downturn, although they underestimated its severity. In last year's survey, just 5% of respondents said the effects would be felt for years to come, 24% said it would be a temporary downturn corrected relatively rapidly and 62% thought it would just result in damped activity.

Three-quarters of people in the survey, which is sponsored by the Simmons & Simmons law firm in London, said they expected consolidation of the private-equity industry, with 75% of those respondents saying it would occur because firms were unable to raise new funds and a quarter saying it would happen through merger activity.

"The private-equity industry called the downturn, but few expected it to be as severe and prolonged as it is proving to be," said Arthur Stewart, a partner at Simmons & Simmons. "We're now living with a crisis that may see some less-successful firms unable to raise new capital and a tough deal-making environment that will see some firms struggle to put capital to work."

Mounir Guen, founder and chief executive of placement agent **MVision**, said, "The market has gone into a holding pattern. The best advice for buyout firms is try to ensure your portfolio companies make it through the next 18 months. Firms need to assure their investors they are protecting their capital."

Other findings show firms are becoming gloomier about returns. The return on nearly half of large buyouts was "significantly lower" in 2008 than last year. Looking ahead, more than 60% said they expected returns to be somewhat lower, or substantially lower, than today.

Firms also plan to do more follow-on investments to restore or reset financial agreements, as well as "bolt-on" deals in which smaller companies are added on to a large-platform business.

With equity markets plunging, more than a third of respondents said they would make more investments in public companies and aim to do more public-to-private deals.

Buyouts were likely to decrease, with 80% saying they would do fewer large buyouts of more than 1 billion euros ($1.3 million), and 40% reducing the number of midmarket deals.

The only two exit routes deemed to be more likely next year were trade sales and insolvencies. For other exit routes, 94% of those surveyed said initial public offerings would be less attractive, while the figures for secondary sales and recapitalizations were 60% and 54% respectively.