

## M&A Views



### Deloitte M&A Views podcast:

#### Private equity dry powder

**Rob Dietrich:** Welcome to Deloitte's M&A Views podcast, where we tap into what Deloitte professionals know about making smart, strategic M&A decisions. I'm Rob Dietrich. Today we take a close look at the state of play for private equity investment. I have with me Bhuvy Abrol, M&A consulting leader for Private Equity with Deloitte, and Adam Reilly, US Private Equity leader for Deloitte. Bhuvy and Adam, thanks for joining me today.

**Bhuvy Abrol:** Thank you, Rob. Pleasure to be here.

**Adam Reilly:** Great to be here. Thanks, Rob.

**Rob Dietrich:** So, we're here to talk about the dry powder that private equity investors have at their disposal right now and the market they face as they try to put it to work.

The amount of capital raised and not yet spent is not an all-time high, but it's close—some 1.2 trillion—which, with the leverage that PE uses, means the buying power right now is immense. And on the other hand, there are headwinds in the market that make it harder for PE buyers to do deals right now. So, Adam, you start. How is that all going to play out? And I have a hunch here that we're going to hear you talk about the debt markets.

**Adam Reilly:** Thanks, Rob. I do think the debt markets are a challenge for our private equity buyers when they're putting their capital to work right now. Clearly, interest rates have moved much higher, and that is one challenge. But I think the access to debt is actually causing more issues, and it's causing our clients to be more cautious in what deals they pursue, knowing that it may be harder to get the financing that they want to make the deals successful. So, I think that's what we're seeing in the near term, and we'll talk a little bit about where there are some optimistic parts of the market as well. But certainly, right now that's a large challenge for our clients.

**Rob Dietrich:** That's interesting stuff. And also, there are some risks out there right now in the macro environment, aren't there?

**Adam Reilly:** That's exactly right. I think there's certainly a recession risk that a lot of people are focused on, a lot of disagreement potentially about if there will be a recession—if so, how deep, how long? And those types of questions are obviously very hard to answer and cause buyers and sellers to have a little bit of a disconnect on what the real value and real price for a transaction to occur at. And so that's another challenge that we see in the market now that's resolving itself but takes some time to get to buyers and sellers to reach an equilibrium.

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**Rob Dietrich:** So, there's reason to be worried about the markets right now, except again, there's so much dry powder out there. Bhuvy, do you want to address that part of it?

**Bhuvy Abrol:** Sure, absolutely. To Adam's point, there are some headwinds, but if you look at the tailwinds here—tremendous amount of dry powder—the largest funds are undertaking tremendous growth activity and fundraising, and this capital has to be deployed. So you marry that with an environment that's a little challenged, and there are businesses out there that need the growth mindset and the partnership that private equity funds bring to them. So, what you're seeing is, from a standpoint of private equity funds, a little bit of a wait-and-see approach; also acting on specific targets where it absolutely makes sense. And if the path to a deal completion is either through a partnership with another PE, with a larger equity check, or potentially a strategic to put not only the powder but, more importantly, the talent and depth and experience to work, that is something I believe we will see in the market.

**Rob Dietrich:** So, there's some reasons for optimism there, even against the headwinds in the macro environment. And I think in the category of tailwinds, too, there's some policy initiatives lately that we probably would be remiss if we didn't discuss. Right?

**Bhuvy Abrol:** I would say so. The infrastructure spending bill, the semiconductor bill, they open up a tremendous amount of unique opportunities for private equity investors. There are many that have been focused on infrastructure, and through either partnerships, again, or through providing portions of what the bills will address—it creates a tremendous opportunity. But again, I do want to underscore the point Adam made around the access to capital being a little challenged at the moment.

**Rob Dietrich:** Do you have any thoughts on that, Adam?

**Adam Reilly:** Yeah, Rob. I think I'd just echo the fact that infrastructure investment from private equity is becoming more and more prevalent. And I think it is a trend that we'll stay close to, and we'll see more funds focused in that area and increased capital allocations.

**Rob Dietrich:** You've given us a good look at the macro picture and some of the headwinds and tailwinds, but let's talk a little bit about what you see your PE clients focused on right now. Adam, you want to take that one?

**Adam Reilly:** Thanks, Rob. I think what we're seeing now is an intense focus on portfolio companies and their operations. While the deal market was incredibly hot over the last couple of years, there frankly wasn't a lot of time to focus on the portfolio company operations. And so, we're seeing clients dig in on things like synergy capture that wasn't finalized during the heady market times, things like digital transformations at portfolio companies that drive value. That's where I think people are actually spending a lot of time now, and I think it's really driving a lot of value for their portfolio companies.

**Rob Dietrich:** That's really interesting. I want to wrap up here with a more open-ended question for both of you. What trends are you watching right now? What's going to come next in the private equity markets?

**Bhuvy Abrol:** One of the things here is that as the focus goes inwards, there's also a desire to add to the portfolio company. Bolt-on acquisitions—where it makes sense from a strategic point of view—that I believe will continue to be a focus. The increased lens on the social responsibility, and environmental responsibility from an ESG standpoint, not only to the investors in the private equity funds, but to society at large is a great focus for private equity, and I think will continue to be so.

**Adam Reilly:** Bhuvy, I would add to that, we've seen tremendous capital accumulation in the private equity space over the years, and I think that's a testament to the value that private equity has created at their portfolio company level, and that accrues to the benefit of the investors. And so, I think we'll continue to see that trend and private equity will continue to become even more of an important player in the overall global economic environment. And so, I think that the long-term trends for private equity are extremely bright.

**Rob Dietrich:** Adam and Bhuvy, thanks very much for joining me today. This has been Deloitte M&A Views. We've been talking with Bhuvy Abrol and with Adam Reilly from Deloitte. I'm Rob Dietrich, thank you for listening.



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