Jon Moulton's Diary

Smooth-talking insiders have taken over from the

Veteran financier Jon Moulton has been involved in buyouts, turnarounds and venture capital since 1979 with firms such as CVC, Permira, Apax, Alchemy and, most recently, Better Capital, where he has been the chair since 2009

Many people in the private equity media and participants in the industry have recently made their predictions about what will happen in 2023. I've read about a dozen of these articles with perhaps 100 PE investors and advisers airing their views.

The maturation of the industry is clear. No longer are most of the commentaries the, often uncomfortable, views of the gnarled managing partner, instead they are often the output of the much smoother investor relations and marketing teams.

The result is remarkable. Whatever is happening is good news for the firm and its clients. The content mostly follows the scripts below – I've added the unsaid reality in brackets.

Views of the year

- The economy is weak and buying opportunities abound. (Portfolio will suffer, insolvencies will rise.)
- The economy is strong, which is great for the firm and clients. (Prices will soar, still more money will pile into PE.)
- Interest rates will go up – distressed debt will be a joy (an odd concept!). (Existing portfolio will suffer.)
- Business is weak, which suits our very competent team of operating partners. (But you said the same when business was cruising.)
- Debt markets are weak but we always see our value add as the main discriminator as we never used much leverage. (Weak debt sourcing capability, portfolio leverage unsupportable for refinancings. Will be doing more unplanned follow-ons.)
- There are piles of money awaiting investment, which will help to provide a strong exit market. (And will doubtless jack up the prices of new deals.)
- Our target industries are well placed. (Deal competition will be high.)
- Our portfolio valuations are, relative to the public markets, strong. (Are they real? Exits, especially secondary buyouts could slow from a reluctance to recognise reality.)

And so on. The balance between the presentation of good things and bad things is well weighted to the good!

It keeps the customers happy – just like the server taking your order in a restaurant who always congratulates you on your discerning menu selection. Keeping investors happy is a sound business activity – and propaganda is a lot easier than being a good investor!

One thing stands out from my sampling of the content. No PE firm that I read about believed their speciality was not a good area for investors. Debt funds recommend debt funds, secondary funds recommend secondary funds, mid-size buyouts recommend mid-size buyout funds and so on. Also nobody recommends (even mildly) any other investment opportunity other than their own.

Now being a prophet is a dangerous sport. Frankly, it's best avoided. Einstein simply said: "I never think of the future, it comes soon enough".

Sadly some people get pushed into making prophecies. It's easiest to see the outcomes in the public markets – and highly embarrassing it can be. Brokers with all their analytical resources are terrible forecasters. One UK broker last year gave 11 carefully chosen stocks to follow in 2022 – just 2 went up in 2022. Perhaps a predictor of times ahead but the best stock was a pawnbroker. Overall the picks were down 25%, with the worst stock down 94%, in contrast with a reasonably flat UK stock market.

Predictions about the year ahead from people in the PE industry are usually full of good news

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2023's key factors

I will not make one-year predictions for PE but I will share my list of the key factors. You cannot do anything to change these.

Global conflict is a real risk to most asset classes. Then there are economic factors such as lack of growth or even recession; inflation, the more the merrier for buyouts; too much dry powder; the success, or not, of mega funds; interest rates and risk appetites.

Social attitudes are also key. Attitudes towards highly paid PE execs could affect the desirability of working in the industry, along with debates about taxation. And will ESG be a flavour of the year?

Having said all that – if pushed – I reckon 2023 will be a good to average year for PE.

A prosperous new year to one and all.

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