

has to self correct. The market is set for a shakeout, a reduction of the number of funds, and the flow of some portion of that capital out of private equity to investments with higher returns. By bidding up the values of investments, the industry is setting itself up for a period of lower returns, longer holding periods, and reduction in size.

Accelerating the investment process will have a short term positive political impact if it happens, but will only accelerate the shake-out I believe is bound to occur.

—Robert P. Louthan, *Pelion Financial Group, ACG Richmond*

The \$2 trillion on corporate balance sheets and funds available for private equity investment are extraordinary sums that could help jump start the economy if invested wisely. Corporations have three options for these idle funds, return to shareholders as dividends or



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stock repurchases, reinvest in their business or acquire other companies. The best option and one that will benefit the economy the most, is to reinvest the funds back into their own business to become more efficient and productive

and to earn a return in excess of their cost of capital.

Companies can also use some of the funds to make acquisitions and if made properly can also be beneficial to the company and the economy. If this \$2 trillion is reinvested or used for acquisitions it would have a very positive effect on economic growth as there would be increased investment in technology, durable goods, people and payrolls, services and increased fees to the various financial service providers such as brokers, advisors, placement agents, lawyers, rating agencies,

etc. There would also be increased activity in the private equity market as more companies will be up for sale, financing or recapitalization. Additionally, the \$2 trillion is sitting on company balance sheets earning a very low rate of return and once those funds are re-deployed and invested, the velocity of these funds will increase exponentially which will be reflected in increased economic growth.

—Joseph J. Ori, *CPA, CFA, president and CEO, Paramount Capital Corporation, ACG San Francisco*

While the overhang of capital, both with corporate buyers and private equity, makes for a great warchest to do acquisitions, it is not going to fix the underlying issues in the economy. Sure, it can drive growth for acquiring companies, but from an economy perspective, the pie is still the same size — the companies comprising the economy just have different names on their doors. Real economic growth is going to come from the individual consumer—not an overhang of capital. When consumers start earning more and spending more, then we will see true economic growth.



C. Bryan Johnson

—C. Bryan Johnson, *senior vice president, Matrix Capital Markets Group, ACG Richmond*

The remarkable amount of cash available for investment has had a quite an impact on the transactional landscape and, in my opinion, will continue to do so over the next few years. The demand for “quality assets” is extremely high, while the supply is still constrained, causing fierce competition for buyers and lenders alike, the impact of which is

already being felt. Corporate buyers, financial sponsors and providers of credit are all feeling the pressure to compete in this marketplace. Purchase multiples for transactions over \$100



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million in revenue and \$10 million in Ebitda have not only recovered, but have flourished. Covenant lite credit is available for the same size asset class, with lenders providing air-ball stretch pieces, while pushing leverage coverage ratios.

This market dynamic has caused transaction multiple variances between strategic buyers and financial sponsors to come closer together, leverage on balance sheets to increase as a result of dividend recap and financial sponsor activity and has provided a life line for challenged businesses that could not find credit in 2009. As a result, companies in play during this time may begin to feel the effect in the intermediate term when their cost of capital increases as a result of: higher interest rates, commodity price fluctuation, and other inflationary pressures.

Over the next two years, especially with tax treatment policies expiring at the end of 2012, we should continue to see sellers of quality assets come to market, while challenged and healthy companies should find credit more attainable and attractive. What the future holds beyond 2012 remains to be seen. With credit maturities looming large, the ability to amend and extend hanging in the balance, and uncertain global economic and political landscapes, it could get very interesting. Will US companies be burdened with another layer of debt as a result of the significant investment capital available in today's market? That's a question in need of answering.

—Adam S. Cook, *managing director and head of investment banking, Phoenix Capital Resources, ACG New York*