Private equity

Private equity chiefs wonder at their own success

Despite record earnings, some at the SuperReturn conference voice concern over 'state of collective delusion'

KKR's Philipp Freise, centre, likened private equity's use of debt to the way children would approach a box of chocolates: 'It's tempting to eat them all at once . . . but it wouldn't be the right thing to do' © Andreas Schoellhorn

Kaye Wiggins in Berlin 8 HOURS AGO

At a Berlin techno club turned corporate events space, Nile Rodgers, the hitmaker behind anthems from David Bowie's "Let's Dance" to Madonna's "Like a Virgin", strummed his 1979 classic "Good Times" with his band, Chic.

As the music played at the invitation-only party on the sidelines of the SuperReturn conference, swaying private equity and venture capital executives seemed incredulous at how much money they had made during the pandemic.

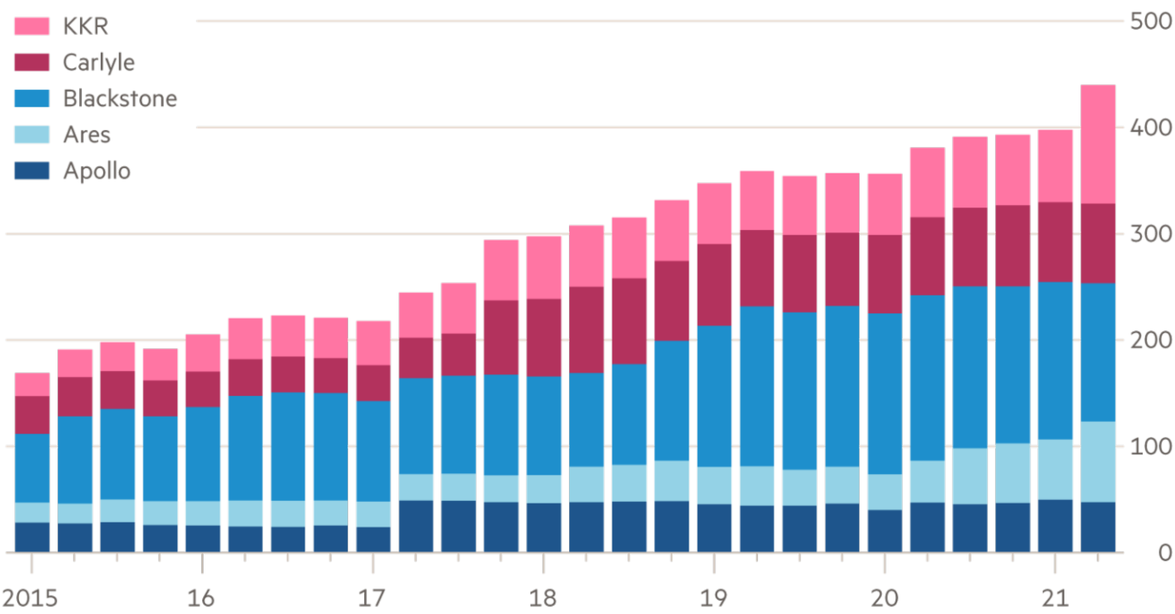
Even Rodgers himself has been drawn into private equity's orbit: the business he co-founded with music mogul Merck Mercuriadis sold a stake to Blackstone last month.

"I didn't expect things would snap back so dramatically" since the early days of the Covid-19 crisis, said David Blitzer, the billionaire Blackstone executive who co-owns Crystal Palace football club, on stage at the 2,000-person conference.

When the industry's dealmakers had departed the previous SuperReturn gathering in February 2020, some were quietly bracing themselves for a reckoning, as their highly leveraged portfolio companies faced prolonged economic turmoil.

Listed US private capital firms have a record amount of 'dry powder' to invest

Uncalled capital available for deployment ($bn)



Source: Goldman Sachs
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But central banks' sweeping crisis measures and huge government stimulus programmes instead helped propel the industry to new highs, giving it easy access to cheap debt with which to strike new deals, keep hard-hit companies afloat and even pay themselves dividends. Blackstone, KKR, Apollo and Carlyle posted record earnings this year.

Private equity is "getting lots of benefits from the politicians . . . it's the hottest market I've seen in my entire career", said Jan Stahlberg, who runs buyout group Trill Impact and has worked in private equity since 1995, during another panel discussion at the plush InterContinental hotel.

But amid the jubilation, karaoke, five-course meals — and after-dinner speeches from former German chancellor Gerhard Schröder and former MI6 head Alex Younger — there were growing whispers on the threats to the industry's success. Inflation, inequality, labour shortages and supply chain disruption made regular appearances in conversations and interviews.

“One hundred per cent of our portfolio companies are struggling with the question of ‘how do you find the right workers in the right places?’” said Joe Osnoss, managing partner of Silver Lake.

“The reason that’s so important is that the market is counting on growth . . . everyone in my companies says, yes, we can grow 15, 20, 25 per cent next year, as long as we can hire to these levels.”

Several dealmakers fretted that the industry’s exuberance was storing up problems. Philipp Freise, KKR’s European private equity co-head, likened private equity’s use of debt to the way children would approach a box of chocolates placed in front of them.

“It’s tempting to eat them all at once . . . but it wouldn’t be the right thing to do,” he said, adding that some parts of the buyouts industry had been gorging.

The combination of hefty valuations, large sums of capital flowing into companies and high leverage created the risk of “the dotcom boom meeting with the financial crisis”, he said.

The big fear among ‘limited partners’ at the conference was that low interest rates and stimulus programmes are lifting the performance even of poorly run private equity firms © Andreas Schoellhorn

Some were concerned about a backlash. “We’re benefiting massively [but] a lot of people have suffered in this crisis,” Stahlberg said. “That will be a political pressure.” A single audience member applauded.

SuperReturn is a more nakedly transactional gathering than last month's Milken Institute Global Conference jamboree in the US, with buyout groups racing to meet as many potential investors as possible. Delegates from organisations with money to deploy — known as "limited partners" — wore badges with a printed black star under their names, so they could be targeted more efficiently.

The big fear among those attendees, on whose money private equity relies, was that low interest rates and government stimulus programmes had lifted the performance even of poorly run private equity firms, making it difficult to allocate funds.

"They all think they're geniuses because their companies are doing really well," one said. "But if it weren't for central bank policy, things would be very different."

One notable difference from last year's event was the absence of some of the industry's titans, such as Blackstone's Stephen Schwarzman and Apollo's Leon Black.

Black stepped down as Apollo's chief executive this year after he was found to have paid $158m to the late sex offender Jeffrey Epstein.

His place in Berlin was taken by Apollo co-president Scott Kleinman, who warned that the sky-high valuations at which private equity firms had struck deals signalled "a state of collective delusion".

Another private equity billionaire who had been at the centre of a scandal since the previous gathering was, however, in attendance. Vista Equity Partners' founder Robert Smith was trying to move past his settlement of a criminal investigation last year when he admitted to hiding $200m from the taxman offshore and evading some $43m in taxes.

One senior figure from an institution that invests in private equity groups privately marvelled at the speed and gusto of Smith's plan to move on and raise a large new fund. Even Michael Milken, who has been pardoned 30 years after a conviction for securities fraud, is not managing outside money again, he noted.

As Smith relaxed into an onstage interview, without any questions being asked of the criminal case, his strategy seemed to be working. "Do you ever take a moment, to savour the moment?" the interviewer asked.

Smith's response: "I'm doing it right now."