

# Private Equity (PE) Strings Together Victories Despite Headwinds

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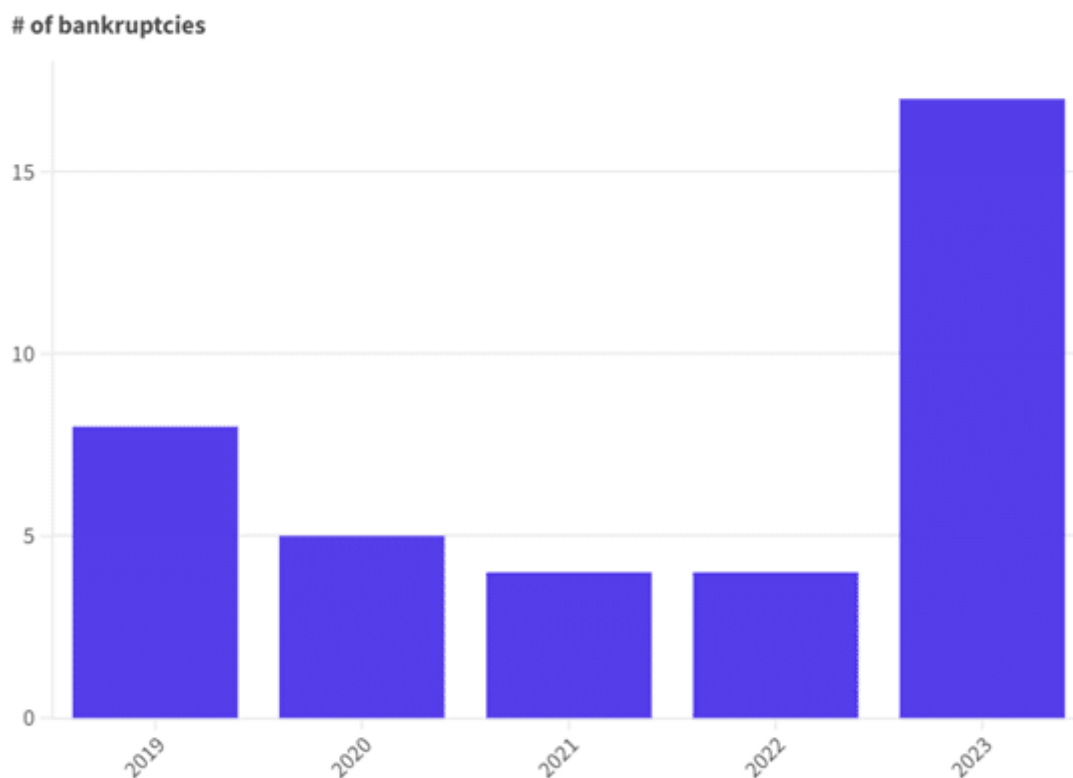
Leveraged buyouts (LBOs) and private equity deals face challenges in today's expensive borrowing environment. However, Permira grabbed headlines this week when the London-based Private Equity firm announced its intent to acquire website builder Squarespace. The deal, valued at \$6.9 billion, is the second-largest leveraged buyout of 2024, underscoring a continued appetite for acquisitions within the PE landscape. Notably, the acquisition follows Silver Lake's \$13 billion purchase of entertainment conglomerate, Endeavor Group Holdings Inc., signaling sustained momentum in high-value transactions.

In a separate but equally important development for the Private Equity (PE) sector this week, a federal judge in Texas dismissed a lawsuit that could have had far-reaching implications for the industry. The lawsuit, which alleged that PE firm Welsh, Carson, Anderson & Stowe (WCAS) was stifling competition in the anesthesiology market through its roll-up strategy, was a significant regulatory challenge. However, the favorable ruling not only highlights a vital victory but also reassures the industry about the robustness of its regulatory environment.

Furthermore, recent macroeconomic indicators have provided a glimmer of optimism for the PE sector. This week's cooling inflation report bolstered expectations of a Federal Reserve rate cut, potentially as early as September. Such monetary policy adjustments can significantly impact borrowing costs, liquidity conditions, and investment strategies within the PE ecosystem, offering potential opportunities for strategic positioning and value creation.

However, amidst these positive developments, the PE industry still faces several challenges. Eye-catching leveraged buyouts remain scarce as interest rates persist at elevated levels. Moreover, a wave of bankruptcies since the start of 2023 has unsettled the industry, particularly among debt-laden, cash-flow-negative companies backed by private equity. In particular, healthcare firms owned by PE firms have been disproportionately affected, witnessing a sharp uptick in bankruptcies year-over-year, as illustrated in the chart below. Additionally, the industry faces heightened political scrutiny, with the current administration signaling its intention to tighten regulations on Private Equity.

## Bankruptcies of PE-owned healthcare companies since 2019



Source: Private Equity Stakeholder Project

Looking ahead, the PE industry is at a pivotal juncture. As economic and regulatory pressures continue to weigh on M&A activity, signs of hope have emerged for an industry burdened with headwinds in recent years. One critical macroeconomic development for investors to monitor is the Federal Reserve's interest rate path. If rates stay higher for longer, the PE industry will likely continue to face headwinds. However, a pivot towards lower rates and borrowing costs would serve as a tailwind for investors. Additionally, monitoring the number of defaults among private equity-backed companies is essential. While not an ideal indicator of renewed M&A activity, cash-flow-negative companies nearing maturity could present unique opportunities for private equity firms in the current environment.

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