

Press Release

Akerman Report: 2018 on Track for Strong Private Equity Fundraising, Capital Deployment and Exits

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Middle Market M&A Robust on Dry Powder, Economic Strength, Muted Interest Rates and Tax Reform

Record dry powder, a historically long economic expansion, tax reform and muted interest rates continue to drive record or near-record private equity (PE) buyout and exit activity, according to data analyzed by top 100 U.S. law firm Akerman LLP. The inaugural Akerman PERSpectives Report, which shines a spotlight on middle market private equity, also noted overall middle market PE buyout fundraising reaching a new high in 2017.

Data shows managers deployed new capital quickly with deal volumes at historically high levels, trends seen lasting through 2018 assuming the continued health of the domestic economy. The report also noted the increased interest in Section 1202 of the Internal Revenue Code, which allows private equity funds to avoid the 23.8 percent federal capital gains tax on dispositions of qualified portfolio companies.

“In today’s market environment, PE fundraising and transaction volumes have maintained healthy levels thanks to a host of favorable market dynamics. Factors driving this PE activity include low interest rates, a growing economy, the reduction in marginal federal income tax rates, the relative

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outperformance of domestic middle market private equity compared to other asset classes, benign credit markets, and the rebalancing of portfolios by institutional investors,” said Carl Roston, co-chair of Akerman’s Corporate Practice Group. “With growing competition and robust valuations for quality buyout targets, increasingly there is a premium on sophisticated deal sourcing through industry relationships, as well as on cost-effective and efficient processes that facilitate closed deals, collaborative relationships with management teams and prudent risk management.”

“Success in middle market M&A requires being keenly attuned to each client’s transactional and organizational goals and risk tolerance,” said Jonathan Awner, co-chair of Akerman’s Corporate Practice Group. “Akerman lawyers have extensive experience serving the needs of PE firms, privately held businesses and Fortune 500 companies, as well as a multitude of foreign investors and companies. The purpose of the Akerman PERSpectives Report is to deepen our dialogue with them with respect to the state of market dynamics and assessing where opportunities lie.”

The Akerman PERSpectives Report analyzes data from both sub-\$1 billion and sub-\$500 million buyout funds, and its content addresses, in particular:

- Even after experiencing modest declines last year, buyout volume and purchase price multiples by these funds have been at historically elevated levels for a number of years. Concerns that the present economic expansion is long in the tooth by historic standards, coupled with uncertainty about the direction of interest rates and heady valuations, are contributing factors to the marginal annual decline in transaction volume and purchase price multiples.
- Despite a disallowance of interest expense deductions at certain levels, transaction volume is likely to benefit from both a decline in the federal

marginal corporate income tax rate (from 35 to 21 percent), and the ability of private equity funds to avoid federal capital gains tax on dispositions of qualified portfolio companies via Section 1202 of the Internal Revenue Code.

- On the exit front, activity for these funds hit an all-time record in 2017. Fundraising for these funds hit a new high in 2017. Fund counts also remain historically high as well.

The Road Ahead

Akerman data reflects that purchase price multiples for companies acquired by these funds continue to be lower than for larger deals, providing an opportunity for multiple expansion for portfolio companies through successful organic growth and acquisitions. While the concern is that assets under management (AUM) in this sector of the market has grown so much that deal competition may depress returns, Akerman data suggests that this perception may be somewhat overstated, as AUM in this sector of the private markets has not grown compared to AUM for all private markets funds and the Russell 2000.

[Click here](#) to view The Akerman PERSpectives Report.

About The Akerman PERSpectives Report

The Akerman PERSpectives Report tracks the often underreported yet significant activity of sub-\$1 billion and sub-\$500 million PE buyout funds. One of the few studies available on this market, the report provides leading perspectives to investors, companies and advisors on market trends and regulatory updates that may impact how they can establish efficient and flexible processes to close successful transactions. Data produced in collaboration with *PitchBook*.

About Akerman

Akerman LLP is a top 100 U.S. law firm recognized by *Financial Times* as among the most forward thinking firms in the industry. Its more than 650

lawyers and business professionals collaborate with the world's most successful enterprises and entrepreneurs to navigate change, seize opportunities, and overcome barriers to innovation and growth. Akerman is known for its results in middle market M&A and complex disputes, and for helping clients achieve their most important business objectives in the financial services, real estate, and other dynamic sectors across the United States and Latin America.

The Akerman Corporate Practice Group advises public and private companies, including private equity funds, on M&A, capital markets transactions, financings, and other transactional matters, with a strong focus on the middle market. Akerman is top-ranked nationally for mergers, acquisitions and buyouts: middle market by *The Legal 500*, is recognized as a leading U.S. law firm by *U.S. News - Best Lawyers* for corporate, M&A, private equity, securities/capital markets, securities regulation and banking and finance law, and is listed in *PitchBook* league tables as among the most active law firms in the United States for M&A deals.