PE Hub

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PE DEALS

Churchill's Anne Philpott: access to unique proprietary dealflow is critical

'Funds invested during or in the immediate aftermath of recessionary periods were among the best performing vintages on a historical basis.'

As the new year begins, PE Hub's Q&A series with private equity leaders reflecting on highlights from 2022 and sharing their outlooks for 2023 continues now with Anne Philpott, a managing director on the private equity and junior capital team at Churchill Asset Management, where she is involved in sourcing and executing investments. Headquartered in New York and an affiliate of Nuveen, Churchill provides customized financing to mid-market PE firms and their portfolio companies across the capital structure. With $42 billion of committed capital, Churchill provides first lien, unitranche, second lien and mezzanine financing, in addition to equity co-investments and private equity fund commitments.

Anne Philpott, Churchill Asset Management

What were the most important trends in dealmaking in 2022?

Given the uncertain macroeconomic environment in 2022, we saw a significant "flight to quality" throughout the year. Buyers were less likely to overlook any financial softness, even if temporary. EBITDA and related adjustments were also a big area of focus in due diligence, with investors looking for consistent performance and the ability to service debt and invest in growth. As a result, multiples increased YoY from 2021, reflecting strong demand for top businesses, as funds sought to deploy dry powder and sellers wanted to generate realizations. Ultimately, private equity investors take a long-term view. The most experienced sponsors and limited partners understand the importance of deploying consistently versus timing the market.

What was the biggest challenge to completing deals in 2022?

With rising interest rates, inflation, and disruption in the public credit markets in H2 2022, many private equity sponsors had to reevaluate how they were structuring transactions to ensure appropriate capital structures and support for value creation initiatives. Sponsors that relied solely on first lien or unitranche financing under more benign macroeconomic conditions have now become more creative around structures, adding more fixed-rate mezzanine debt to counter the rising interest rate environment, and putting more equity into deals, creating favorable equity co-investment opportunities.

How do you expect the first six months of PE dealmaking in 2023 to compare with the last six months of 2022?

I believe the first half of 2023 will see a continuation of rising interest rates, persistent inflation and recession fears. In parallel to macroeconomic conditions, dealflow will likely slow through mid-year, then begin to build up momentum through the second half, provided investors have clarity on ultimate interest rates. Pent-up demand from private equity sponsors with dry powder will drive flow once conditions allow. Ultimately, total volume may be slightly down from 2022, but positioned for another strong year in 2024.

What will be the most important trends affecting dealmaking in 2023?

First, access to consistent quality dealflow in partnership with leading mid- market funds will continue to lead to outperformance. Second, given market volatility, execution capabilities will be key as certainty to close remains one of the key competitive advantages in a transaction process. Lastly, flexibility is a huge value-add for sponsors. We've seen firsthand

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that the ability to offer comprehensive financing solutions across the capital structure – from senior loans and junior debt to equity solutions – allows us to differentiate in the market and positions us well to consistently see attractive opportunities from our core sponsor relationships.

What should the private equity industry be most worried about?

Without more visibility on inflation, rates and the economy by mid-year, the private equity industry may operate at a lower level of deal activity for longer. During times like these, access to unique proprietary dealflow is critical to receiving better relative quality and volumes. In Churchill's case, for instance, our position as a proven co-investor, direct lender and advisory board member to private equity firms often allows us to get a first look on top opportunities. Scaled managers with large existing portfolios will also benefit from add-on acquisitions and activity in a slower new deal environment.

At Churchill, we always keep an eye on the macro environment and volatility in the debt markets so we can choose the best deals from a risk/return perspective. Our scaled platform allows us to be highly selective with transactions and also pivot across asset classes as needed, which is vital in an uncertain environment.

What should PE folks be most excited about for 2023?

2023 will offer a significant amount of opportunity for scaled, differentiated managers with dry powder. Historically, funds invested during or in the immediate aftermath of recessionary periods were among the best performing vintages on a historical basis.

From a limited partner perspective, we are seeing private equity firms begin to differentiate in terms of strategy and specialization in response to the market environment and dealmaking trends. This will create some interesting opportunities both as a limited partner and co-investor alongside sponsors in the coming year.

For more from our Q&A series, see our interview with **Thoma Bravo's Holden Spaht** and our conversation with **The Riverside Company's co-CEOs Béla Szigethy and Stewart Kohl.**

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