NEAR EARTH LLC

SPECIALISTS IN SATELLITE, MEDIA AND TELECOM INVESTMENT BANKING

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TOO MUCH MONEY AND FEWER DEALS: SOMETHING WILL HAVE TO GIVE

…the private equity market is active and looking to become more so…

Having recently completed a round of meetings with more than twenty private equity and venture capital firms which, in various degrees and for various transaction size targets, specialize in the Media & Telecommunications industry, we can confidently report that the private equity market is active and looking to become more so.

While many groups have recently passed the investment periods of their previous funds, most of these have already closed on their next, and the magnitude of the new investment vehicle is almost uniformly greater than its predecessor. Not only is private equity liquidity thus higher than it was, but perspectives are generally fresh and forward-looking (with the market correction of several years ago firmly a thing of the past). As the national economy moreover continues on a steady course, seemingly undaunted by natural disasters and energy costs, and as the public equity markets reflect that modestly upward trajectory, the mood of cautious optimism prevails.

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But in this silver lining there is, as almost always, that nagging element of grey. Whether the fund is large or small, whether it calls itself "buy-out" or "venture", whether it's backed by institutional or private (family) capital, the investment target is broadly speaking the same: the profitable (or nearly profitable) proven enterprise, with predictable revenues, minimal if any technology risk, and in a protected (or highly defensible) market. The more hybrid investment groups, moreover, such as PIPE investors and hedge fund managers, both of which have made their way of late onto the turf of traditional private equity, also seek out that same generically described target… And have we mentioned the mezzanine funds? And the growing number of reverse-merger seeking cash-rich shells called SPACs?

Although we have no concrete data to support the case, one should reasonably assume that the aggregate dollar amount of potential private equity or equity-like deal flow may not suffice to satisfy all of these virtually identical appetites and needs. Something, as noted above, will have to give.

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It seems unlikely that the preponderance of funds would, after an initial period of competition for limited opportunity, return capital to its investor base… and anyway, even if this were to occur, what alternative would these capital sources find at that time to direct their capital more productively? More likely, we believe, parameters will change, (as they have in the PIPE universe over the last 12 months), and exceptions will be made. Deals will thus close that may not fall squarely in the currently defined "sweet spot," and it would not come as a surprise if this behavioral pattern were to begin sooner than later. When it does, the investment community will have begun to add even greater value to our economy, with the increased sponsorship of new enterprises to challenge the incumbents in a more robust free market.

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