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With plenty of gas in the tank, Chicago private-equity firms poised to spend in 2024

By Mark Weinraub

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Chicago-based private-equity firms sitting on capital reserves are poised to take advantage of a rebounding economy as expectations of stabilizing interest rates will spur investment.

Growing expectations that the economic rebound will continue next year and the U.S. Federal Reserve will hold interest rates steady will likely spur private-equity firms to spend some of the money they've kept in the tank due to uncertainty about the strength of any recovery.

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"I think if the Fed has been able to steer us to a soft landing, I will have to take back a lot of things I have said about the Fed," said Patrick Galleher, managing partner for Boxwood Partners, which advises companies looking to sell all or part of their companies to private-equity buyers. "It sure seems and feels that it might be the path we are on at the moment."

So far in 2023, private-equity funds have raised $665.29 billion in capital and closed 1,354 funds, according to financial data provider Preqin.

In 2022, the private-equity market raised $937.01 billion and closed 2,775 funds, well off its peak of $957.7 billion for 3,401 funds in 2021.

Chicago-based companies have raised $39.42 billion and closed 81 funds so far this year. In 2022, the Chicago figures were $73.96 billion and 81 funds.

During the relatively slow 2023, firms have been content to sit on the money that they raised but will likely be more aggressive in deploying that capital in the coming months. Pete Witte, global private-equity lead analyst at Ernst & Young, pegged that figure at $1.3 trillion globally.

"When talking about the dry powder issue," said Witte, "it is a lot of firepower."

Tech and health care were the star sectors during the slow private-equity market of 2023, Witte said, and manufacturing and industrials could be ripe for investment if the economy improves as many analysts are expecting.

Investing in companies with relatively little debt was crucial to thriving during the past two years, said Miguel Gonzalo, a partner and head of investment strategy and risk management at Adams Street Capital, which manages $58 billion in assets for more than 610 institutional investors and closed its 2023 Global Fund Program with $820 million in committed capital.

"We have been a very consistent performer over many cycles," said Gonzalo, whose firm focuses on consistently outperforming public markets by 3% to 5%. “We have got a team that’s been around for a long time managing in different cycles. Low leverage creates consistency. Rising interest rates didn’t impact us as much.”

Their experience level helped reassure existing investors, but all the negative financial news presented challenges to finding fresh sources of capital.

“All these short-term headlines create uncertainty in a new investor’s mind,” Gonzalo said.

Mark Radzik, co-founder and managing partner at Granite Creek Capital Partners, compared weathering the last two years to getting through the 2008 financial crisis, an experience he said helped when fundraising in this year’s down market.

“That is a badge of honor,” said Radzik, whose firm recently closed $300 million for its fund that looks to invest in midsize companies. “Most people just went out of business. We have an advantage over people that have never seen a bad market in their life.”

But even experienced investors have not faced an environment that tracks directly with the current one. The economic indicators are different than they were after the 2008 financial crisis, the COVID-19 pandemic and the dot-com bust, EY’s Witte said.

Private-equity firms will still take their time and do plenty of due diligence on potential investments as they look to find their footing in a new environment.

“There is not necessarily a modern playbook, so we are seeing some new adaptions for how they are managing,“ Witte said.

By **Mark Weinraub**

Mark Weinraub is a banking and finance reporter for Crain’s Chicago Business. He joined Crain's in 2023 from Reuters, where he spent the bulk of his career writing about commodities, agriculture, Chicago’s futures exchanges, government and other industries. Weinraub also previously worked in the agency’s Washington and New York bureaus. He is a graduate of Northwestern’s Medill School of Journalism.

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