The Texas Lawbook

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CDT Roundup: 12 Deals, 7 Law firms, 63 Texas Lawyers, $2.04B

By Claire Poole

(Feb. 25) – Private equity has dominated merger and acquisition activity over the last few years. But according to Preqin, that might change soon.

According to a report the data and analysis firm put out last week, the unprecedented activity that has characterized the private equity industry in recent years is likely to slow in the months ahead.

While fundraising has exceeded $400 billion per year since 2014, the firm said high pricing is putting pressure on future returns and distributions have slowed, leading some managers to reduce their targeted returns.

Fundraising and deals marketplaces are more crowded than ever before, Preqin added, with a record 3,749 private equity funds in market at the start of 2019 collectively seeking $972 billion, an all-time high. Almost half of fund managers saw increased competition for deals last year and 35 percent see competition for deals as a key concern in the months ahead.

“The flood of capital and participants that have entered the industry have put pressure on pricing and this has a knock-on effect on future returns that we may already be seeing emerge,” Christopher Elvin, Previn’s head of private equity, said as part of the report.

Seventy-two percent of investors and 62 percent of fund managers cited high asset pricing as a key concern in 2019, the biggest issue cited by both groups, Preqin said. And while distributions have remained high, capital calls have accelerated.

Indeed, the net flow of capital to investors fell from $150 billion in 2016 to a negative $5 billion in 2017 – the first negative flow since 2010, the firm said.

Preqin noted, however, that investors still seem to be committed to the asset class.

In the 10 years through June of 2018, the private equity industry has outperformed the S&P 500 index by six-tenths of a percentage point, the firm said. And 90 percent of investors report that their private equity investments have met or exceeded their expectations in the past 12 months, with almost half saying they planned to boost their allocation to the asset class.

“With concerns about a wider financial market correction remaining, the long-term performance and diversification offered by private equity are particularly appealing,” Preqin said.

A recent survey by EY found that private equity firms are readying their exits given economic jitters, with 78 percent of respondents saying they are ready to unload their portfolio companies quickly if a market correction occurs over the next 12 months. 74 percent saying they were willing to consider unsolicited offers.

Meanwhile, Dealreporter released some interesting statistics this past week on M&A: That deals involving target companies with equity valuations of between $1 billion and $5 billion represented the most populated group around the world last year.

North America saw the most dramatic increase, with deals in that range representing 51 percent of transactions last year, versus 44 percent in 2017. That jibes with recent data that transactions are getting bigger and bigger – a worrisome sign that dealmaking may be reaching the bubble stage.

Among Texas lawyers this past week, dealmaking activity slowed way down, with 12 transactions valued at $2.04 billion versus 16 deals amounting to $9.97 billion the previous week. That performance was eight deals down and $4.5 billion less than this time last year.

Capital markets work reentered the scene after a two-week absence, however, with three transactions valued at $1.43 billion. There were nine M&A/private equity/VC transactions worth only a reported $614.6 million (four of the deals had confidential values).

Seven law firms and 63 Texas lawyers were involved in the activity, versus 18 law firms and 77 lawyers the previous week.

CAPITAL MARKETS TRANSACTIONS

Winston advises NexPoint on $100M potential stock sale

Winston said it counseled Dallas-based NexPoint Residential Trust Inc. on its agreement with Jefferies, Raymond James and SunTrust Robinson Humphrey to sell $100 million worth of common stock from time to time at prevailing market prices on a best-effort basis.

The team included partners **Charlie Haag** and **Justin Reinus** and associates **Steve Franklin** and **Melissa Kalka**, all of Dallas.

The publicly traded real estate investment trust said it won't initially receive any proceeds from the sale of shares of its stock by the forward purchasers or their affiliates.

The trust plans to use any proceeds to repay amounts outstanding on its revolver and for general corporate purposes, which may include funding investments and repaying amounts outstanding under its debt obligations.

NexPoint is focused on acquiring, owning and operating well-located middle-income multifamily properties with "value-add" potential in large cities and suburban submarkets of large cities, primarily in the southeastern and southwestern U.S.

The trust is externally advised by NexPoint Real Estate Advisors, an affiliate of global alternative asset manager Highland Capital Management.

In January NexPoint CEO Jim Dondero said in a statement that the trust continued to experience robust demand for its communities in the fourth quarter.

The trust said it completed its first equity raise since listing in April 2015 to pay down debt, which helped capitalize its purchases of two properties with upside potential in its core markets. In January it bought three more properties, all in Arizona.