

Privcap/Report

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interview with

Geoff
Rehnert

Co-CEO and Co-founder,
Audax Group

Q2 2016 Dealmaker Roundup

Featured Topics

Will Deal Surge Continue?

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PE Exits Set to Grow

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About This Report

This publication is a companion to Privcap's Dealmaker Roundup, a quarterly video program on the latest trends in private equity dealmaking.

[You can watch the full program here.](#)

About the Experts



Click to watch the companion video



Ryan Budlong is a managing director and leads the West Coast Consumer Group efforts for Harris Williams out of its San Francisco office. He has more than 10 years of investment banking experience and has advised clients on M&A and capital-raising transactions for companies providing products and services to the consumer industry.

[Learn more about Harris Williams here.](#)



David Snow is CEO and co-founder of Privcap Media, the leading channel for thought leadership in private capital investment.

www.privcap.com



Chris Elvin is the head of private equity products at Preqin, the alternative assets industry's leading source of data and intelligence.

[Learn more about Preqin here.](#)



Harshad Khurjekar is a director in RSM's Transaction Advisory Services group, providing financial due diligence services to PE investors and corporate acquirers. In the past 10 years, he has helped coordinate more than 200 transactions worth more than \$5B, with a particular focus on the business services, transportation & logistics, industrial products, consumer products & retail sectors, and cross-border M&A.

[Learn more about RSM here.](#)



Will the Deal Surge Continue?

David Snow, Privcap: There has been a surge in deal volume [in Q2], at least compared to the first quarter. So I'd like to know whether the deal surge will continue. Ryan, why was Q1 a bit sleeper as far as deal volume?

Ryan Budlong, Harris Williams: The middle market in the first quarter continued to be pretty active. What we saw was a reduced number of mega deals year-of-year from '15 to '16. So it made things seem a little bit slower.

Additionally, the credit markets were a little bit choppy in Q1 of 2016. So some deals that needed to access the capital markets to get that debt financing probably tapped the brakes a little bit and waited for the second quarter to get kicked off.

Chris Elvin, Preqin: If we look at Q2 as a whole, whilst the actual deal value was down, there were actually more than 1,000 deals completed. That was largely attributed to the U.S. and Europe, where about 89 percent of those deals were done. Certainly it infers the number of smaller deals and the midsized deals there [were] still running robustly.

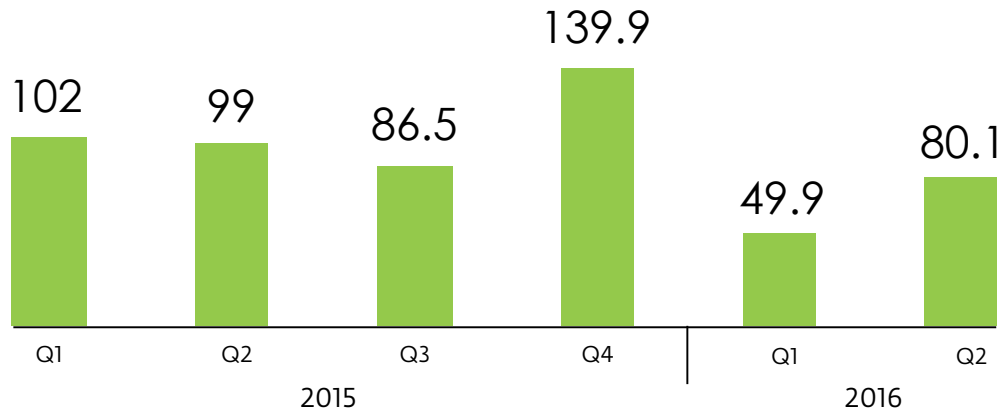
Harshad, what do you see as the main drivers of deal activity right now?

Harshad Khurjekar, RSM: I'm seeing significant activity in add-ons, especially compared to last year. People have paid higher market prices on the platform, and the only way you're going to justify those

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Global Private Equity Deal Volume (\$B)

Source: Preqin



higher market prices [is] by doing add-on acquisitions at lower market. But also the blended cost of acquisitions is coming down.

Do you see a difference in what's going on in the middle market versus the large-deal market?

Budlong: We see the middle market as, traditionally, a lot more stable environment in which M&A volume comes from. And part of that is it's not as susceptible to stock market fluctuations or public market investor market sentiment, so it tends to be a little bit more stable than the mega deals.

Khurjekar: We are extremely busy. I'm sold out for at least the next six weeks and looking at probably eight to 10 weeks of solid project pipeline. There is significant activity in the middle market.

Chris, Preqin tracks the nature of PE deals, and there a huge percentage of them are sponsor-to-sponsor—sometimes called secondary transactions—where a PE firm sells to another PE firm. What does that phenomenon mean for the market?

Elvin: Historically, the secondary transactions like that have been viewed by some in a negative light. But if you look at the overall asset class, there are more assets held by private equity firms than ever before. And if you look at the skill set and size and resources of the different private equity firms, there is a natural logic to a smaller entity upselling that asset to a bigger private equity firm.

Budlong: So what one private equity firm may have brought to a portfolio company, another private eq-

uity firm can bring something totally different. The other thing that we've seen at Harris Williams is the valuation differences between strategic buyers and financial buyers have significantly narrowed. It used to be strategic buyers would pay significant premiums for assets.

Is this because PE firms aren't going after the same kinds of returns?

Budlong: As a whole, PE is underwriting lower expected returns, just given how competitive the market is right now and the low interest rate environment we're in.

Khurjekar: I'm seeing more involvement from operating partners, specialist groups, by private equity buyers, where they are predominantly getting into family-owned businesses that are not being run well. That's where the secondary play comes in, with the niche-focused private equity funds buying companies, improving it.

Elvin: We've already conducted some surveys of fund managers within the industry to find out whether they'll be looking to invest more or reduce the number of investments. And it's a mixed bag.

More than a third of the fund managers we surveyed said in the next 12 months, they're going to be looking to invest less in the U.K. as a result [of the Brexit]. Only time will tell what the long-term effect of that is. But that uncertainty could be quite a poisoned chalice for deal activity, with many proceeding cautiously over the near to longer term. ■

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Hot Sectors

Each of you is interested in a certain subsector of the private equity deal market. Why do you find certain sectors so interesting?

Budlong: We've seen a noticeable improvement in deal activity in the food and beverage world. As investors start to look forward and anticipate a cyclical downturn at some point, food and beverage has traditionally been a safe place for investors to put their money. Obviously, people are going to continue to need to eat and drink. In addition, there are a number of subsectors within food and beverage that have some secular growth trends, like health and wellness.

Chris, what is driving activity in the healthcare space among private equity firms?

Elvin: We've seen, particularly in the last four quarters, a pickup in healthcare deals. And that's directly

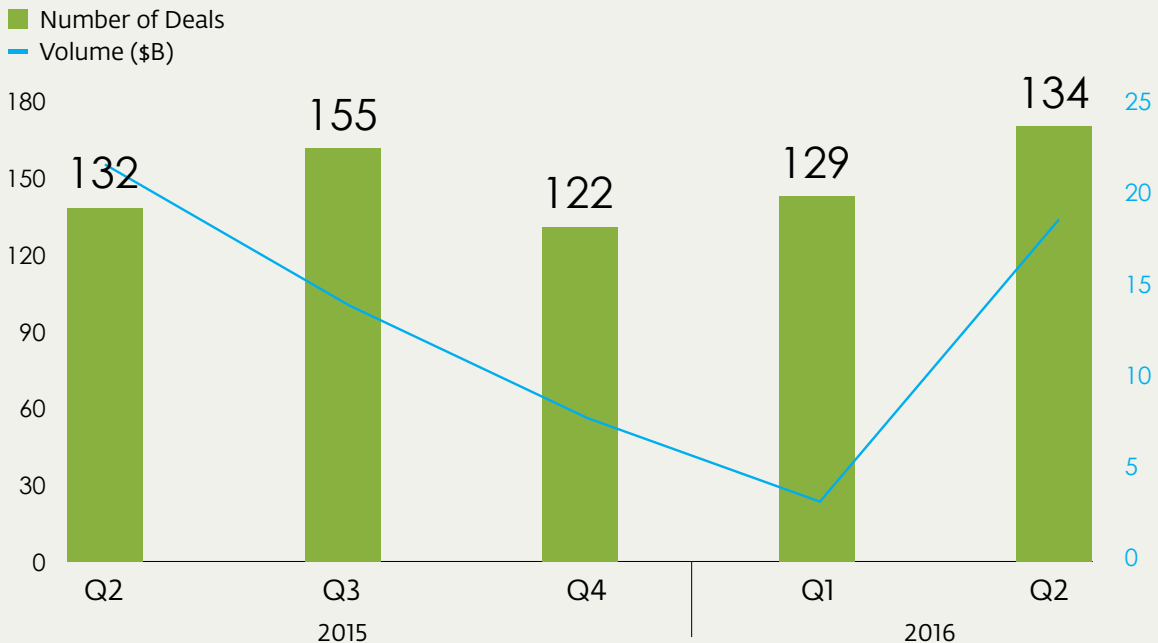
correlated to the number of funds being raised and the amount of capital being raised in the buyout space [that's] specifically targeted at healthcare. While the majority of healthcare activity seems to still take place in developed economies, as healthcare in emerging markets becomes more established, that's also presenting opportunity.

Harshad, what are you seeing in the business services sector?

Khurjekar: People are interested in business services because of low cap-ex requirements for the business. So it's more asset-light businesses [where there's] opportunity for significant cash flows...tech-enabled logistics, tech-enabled media, tech-enabled everything, pretty much. And those companies are getting pretty high multiples because of the unlimited opportunities the company may present. ■

PE-Backed Business Services Deals and Deal Volume

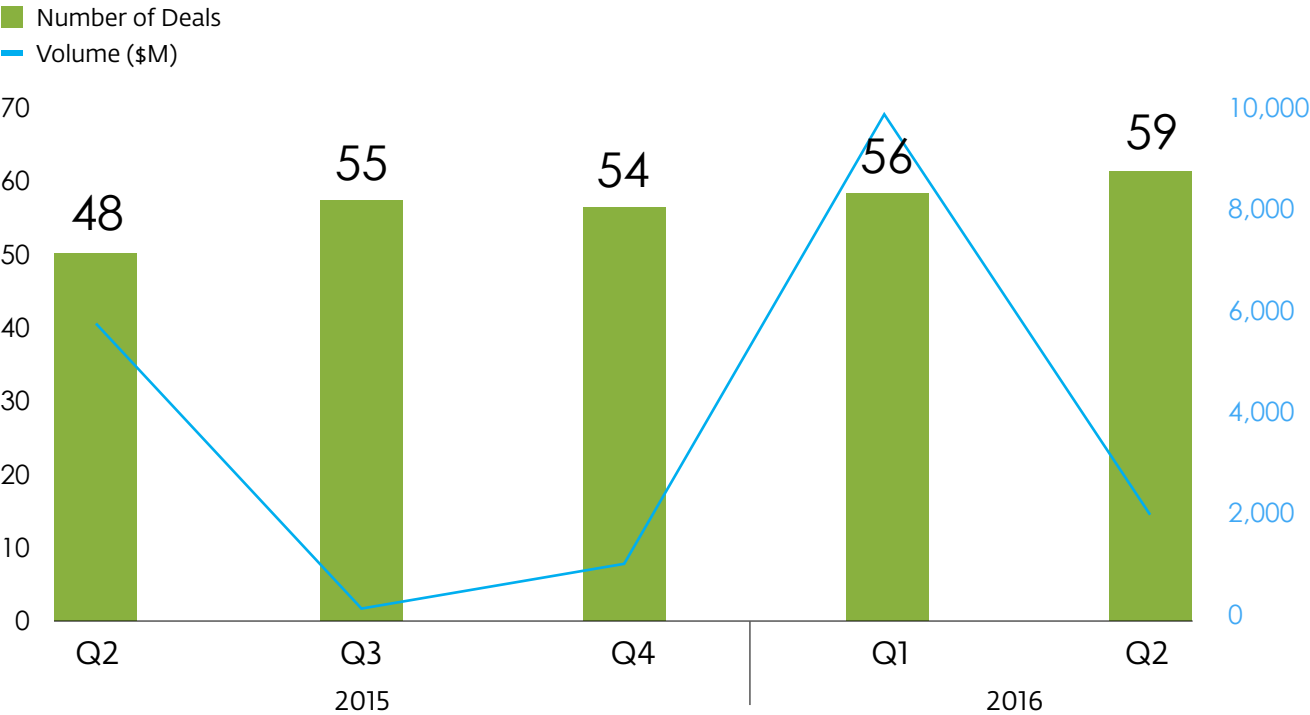
Source: Preqin



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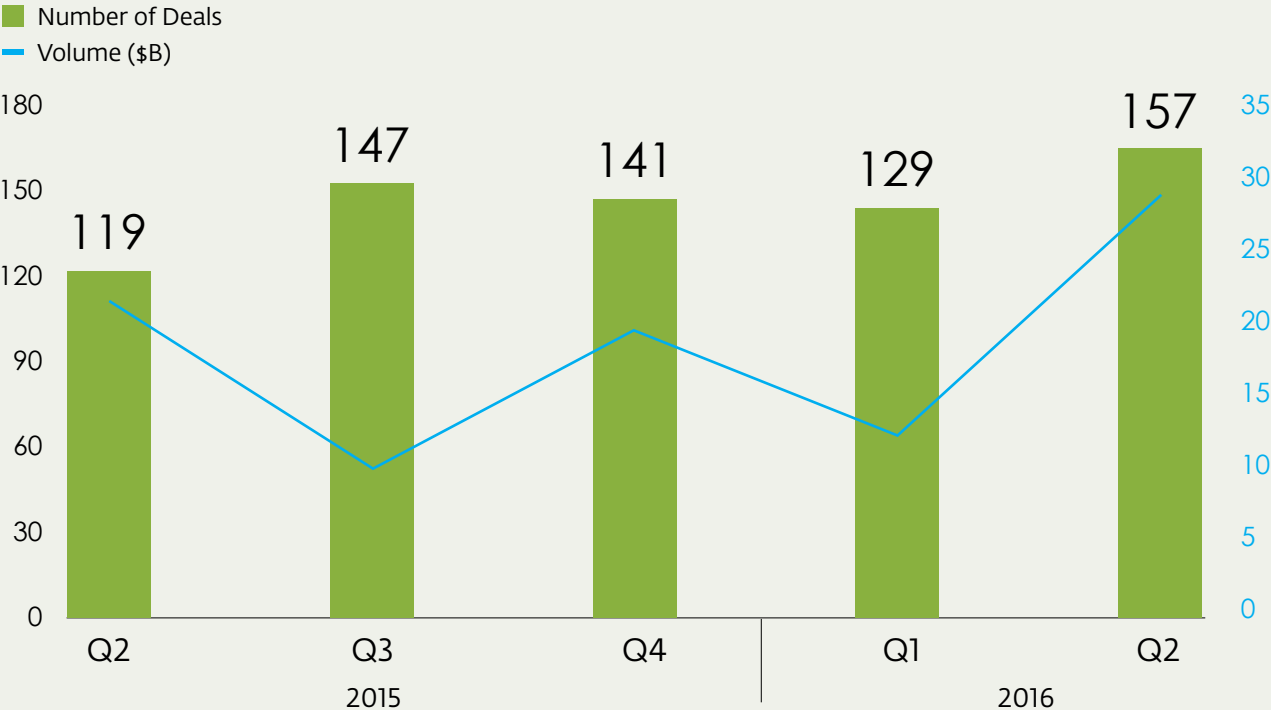
PE-Backed **Food & Beverage** Deals and Deal Volume

Source: Preqin



PE-Backed **Healthcare** Deals and Deal Volume

Source: Preqin



PE Exits Set to Grow



Since 2013 the number of PE-backed exits has mostly been above 400 per quarter, according to Preqin. But in a couple of recent quarters, the volume has been down. Chris, what is your read on the coming exit activity?

Elvin: In the remainder of 2016, caution will be the outcome that's most likely. And my personal view-point would be that the exit activity will remain robust, but is likely to be below the levels we saw in 2015.

Ryan, what do you see as far as IPOs as an exit route in the second half of 2016?

Budlong: The IPOs will probably continue to be slow. The first part of the year got off to a very slow start for public exits.

Historically, companies went public for greater access to the capital markets. There's a much more

robust private capital market today. So they don't need some of those same resources that you only got from being a public company.

And managers oftentimes have a preference to operate in a private manner so they can make better longer-term decisions and not have to report on a quarterly basis.

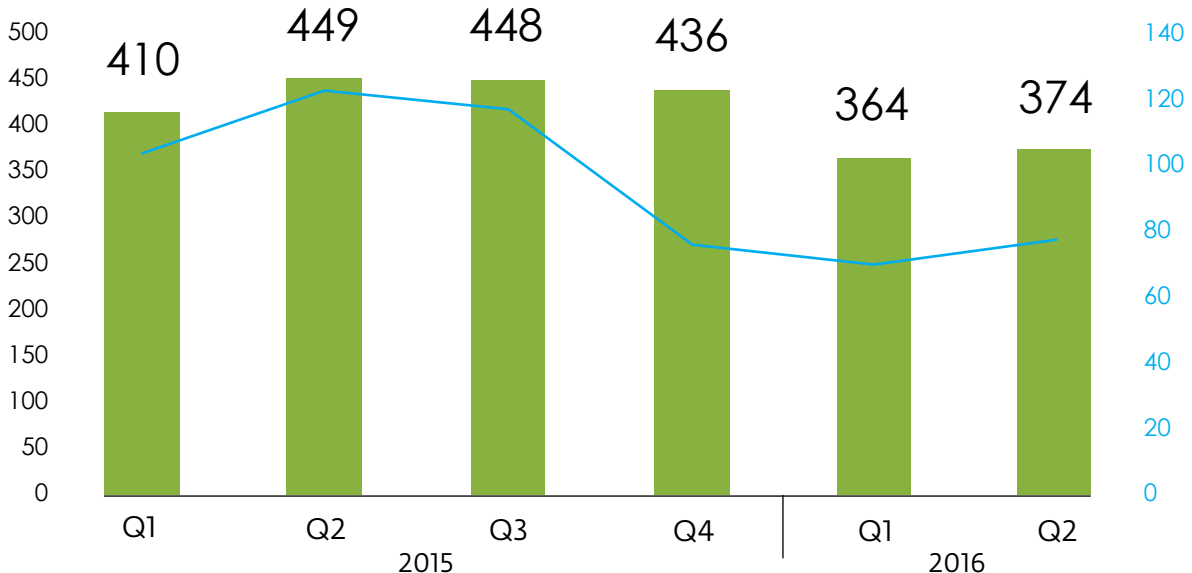
Khurjekar: I'm optimistic about the exit activity for the next 12 months. But I don't think it's going to be extraordinary. It's going to be solid, because multiples are still high. There is a lot of private capital available, so people are ready to pay a higher multiple for good companies.

Should we assume that there will be less cross-border exit activity as a result?

Khurjekar: That's exactly what everybody's expecting, and they're sitting on the sidelines until the dust settles. ■

No. and Value of PE Exits Is Rising Again

■ No. of Funds in Market
 — Aggregate Capital Targeted (\$B)






Geoff Rehnert
Audax Group

POWER BROKERS: Geoff Rehnert

Insights from the world's leading investors and dealmakers

 [Click to watch this video at *privcap.com*](#)

RSM's Don Lipari sat down with Geoff Rehnert, co-CEO and co-founder of Audax Group, to discuss deal flow and valuations.



Don Lipari
RSM

Don Lipari, RSM: With so much capital committed to private equity, is it more complicated to differentiate yourself in the marketplace?

Geoff Rehnert, Audax: Absolutely.

Lipari: And when there are too many dogs chasing too few cats, valuations have a tendency to stay high.

Rehnert: I've been in the business for 32 years now. And every year, starting in late 1984, I have heard the common wisdom that there's too much money chasing too few deals, relative to the prior year. It's Economics 101. If demand is high, supply keeps increasing to meet that demand. And the total amount of capital under management has increased every single year I've been in the business.

Public markets, depending on the year, are up and they're down, but they're generating, on average, 500 basis lower return than the median private equity returns. So there's still a premium to what you can get in public markets. ■