Privcap/Report

Q1 2017 Dealmaker Roundup

Featured Topics

Where Were the Mega-Deals?

Public-to-Private Slowdown

Private Equity Exits

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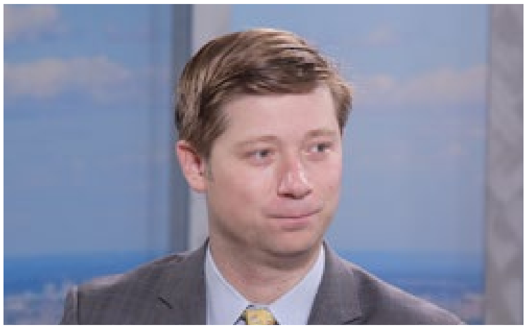
About This Report

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

About the Experts

Michael Fanelli is a partner in the Transaction Advisory Services practice at RSM US LLP, focusing on retail and consumer products and business and professional services. He performs transaction advisory services on both buy-side and sell-side transactions, assisting both financial and strategic buyers. Prior to his transaction advisory experience, Fanelli worked as a controller of a middle-market company and as an auditor at a Big Four accounting firm.
Learn more about **RSM here.**



Leopold Peavy is head of investor products at Preqin, which he joined in 2012. In this role, he oversees all commercial elements of Preqin's investor-focused suite of products and manages various other strategic initiatives and partnerships. Peavy is also responsible for publications and research reports for LPs/investors in alternative assets, and for developing and promoting new products for this client group.
Learn more about **Preqin here.**

Jeff Bistrong is a managing director at Harris Williams & Co. He founded and heads the firm's Technology, Media & Telecom Group, and his banking career spans almost three decades at Harris Williams & Co. and BancBoston Robertson Stephens. Bistrong has led M&A advisory assignments for software, SaaS, IT services, Internet, digital media, telecommunications, and technology hardware companies, and in verticals including healthcare IT, financial technology, energy and power, transportation and logistics, and not-for-profit.
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

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Where Were the Mega-Deals?

Privcap: Deal activity in the first quarter of 2017 was robust from a volume standpoint but sleepy from a total value standpoint. Jeff, what happened to the larger deals?

Jeff Bistrong, Harris Williams: We've had a sustained, robust M&A market—the very successful exits tend to aggregate in the fourth quarter and, after every strong year since 2015, the market's taken a pause and said, "Can we have another year that looks like this?" I think we experienced that pause this Q1 as well.

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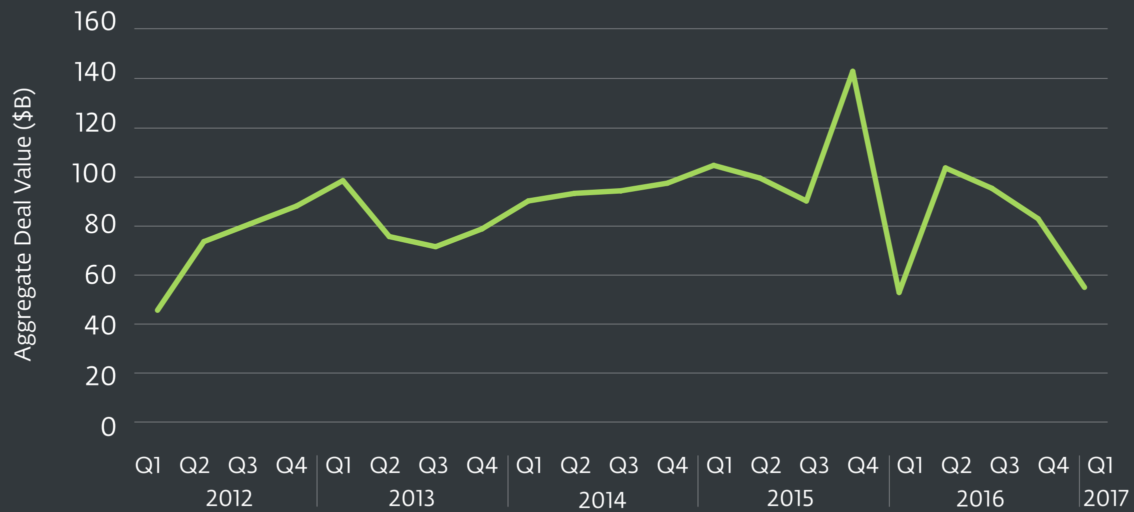
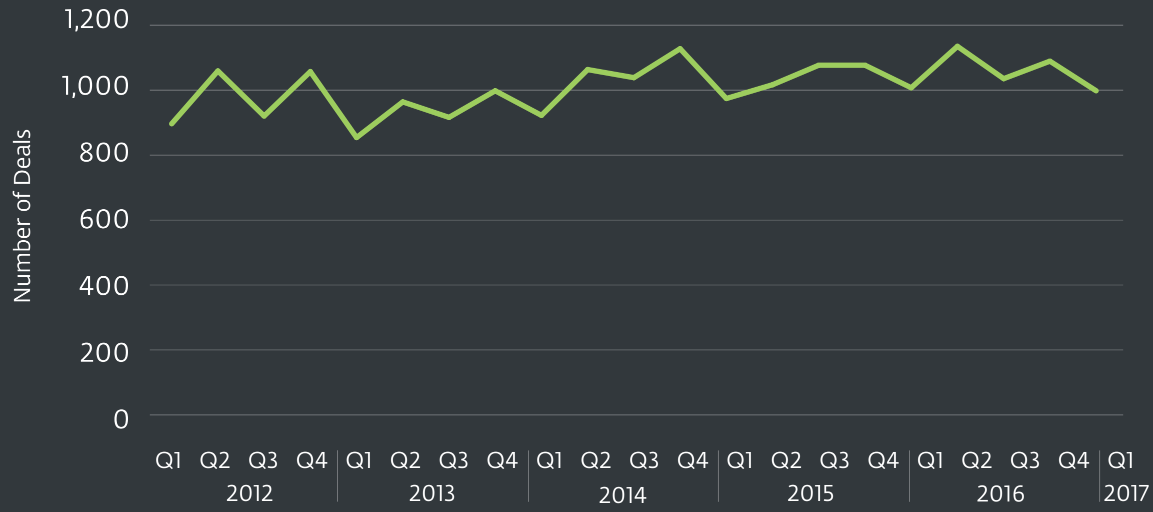
PE-Backed Deal Value



Source: Preqin

PE-Backed Deals



Source: Preqin

Leo Peavy, Preqin: Both in terms of deal activity announced and completed, we're mirroring Q1 2016. A lot of GPs that we've spoken to have stated that they're looking to ramp up their activity throughout the subsequent quarters—they have to, consideringthe record levels of dry powder and fundraising competition.

Michael Fanelli, RSM: The first quarter was a little slower than we wanted it to be. To your point, typically Q1 is a little bit of a slower time period. People come back into the new year with a smaller pipeline. But there's still the desire out there to do deals, both on the large scale and on the smaller scale. It's really a matter of finding the right deal. There has been the flight to quality and the issue of finding quality companies to acquire.

Bistrong: I'd add that, as an M&A advisor, we see the deals before they hit the market and in the second half of Q1 we saw significant ramp-up in activity.

Peavy: It's actually quite interesting—in terms of deals closed, we saw an average value of about $135 million per deal. In terms of deals announced, we saw almost $550 million on average per deal. So, in terms of size, the pipeline looks significantly stronger than the deals completed in Q1.

Privcap: Larger deals need to materialize down the road, or large private equity firms are going to have some 'splainin' to do. As we speak, private equity is hauling in a record amount of capital. In fact, the first quarter of 2017 was actually the biggest first quarter ever for private equity fundraising in North America, especially among larger GPs. So, are these GPs confident they'll be able to put all this capital to work?

Fanelli: The competition is going to be fierce. It's probably going to keep the multiples relatively high. This is another reason why EBITDA multiples probably will remain high. There is so much money chasing these companies.

PUBLIC-TO-PRIVATES

Privcap: Historically, public-to-private deals have been a very important type of private equity transaction. They've tended to be the larger deals and are often sponsored by the larger private equity firms. There haven't been as many recently and, as a percentage of deals getting done, they don't rank very highly. What is going on in the public-to-private opportunity set?

Bistrong: In my estimation, the opportunity for public-to-private is as attractive as it ever has been, but much of the low-hanging fruit has been picked in a sustained growth market. The public equity valuations have moved higher over recent years and, at the same time, the companies that clearly were not being valued by the market were taken private. And that will become even more selective until we see the next cycle.

Fanelli: There is a significant amount of companies out there that need to be taken out of the public markets because they're just not working right now. Take the retail industry—there are a lot of these multi-location, multi-billion-dollar retailers that would probably benefit from being taken private so they can transform themselves outside of the public eye. But the difficulty is, there's a huge amount of execution risk, because a lot of these businesses have been declining for years now. They need a full transformation to be able to be profitable. So, there's a significant amount of work that the private equity sponsor is going to have to do once they take these companies private.

PE Deals by Type, Q1 2017

Percentage of Total

Deal Type	No. of Deals	Aggregate Deal Value
Add-on	40%	14%
Buyout	42%	59%
Growth Capital	14%	7%
PIPE	2%	4%
Public-to-Private	1%	16%
Recapitalization	2%	0%

EXITS

Privcap: Let's talk about another observation from the first quarter, which is that private-equity-backed exits have actually been pretty weak. And this comes after a fairly sustained period of GPs returning record amounts of capital to their own investors. Jeff, can you put that in context for us?

Bistrong: Given that generally this is a robust market for exiting a portfolio company, the slowdown has not been a question of desire. And it's not a question of failed processes. It's really that private equity firms now hold a more selective group of assets that they can bring to market. We have a natural shift, given the rapid pace of deals over the last several years.

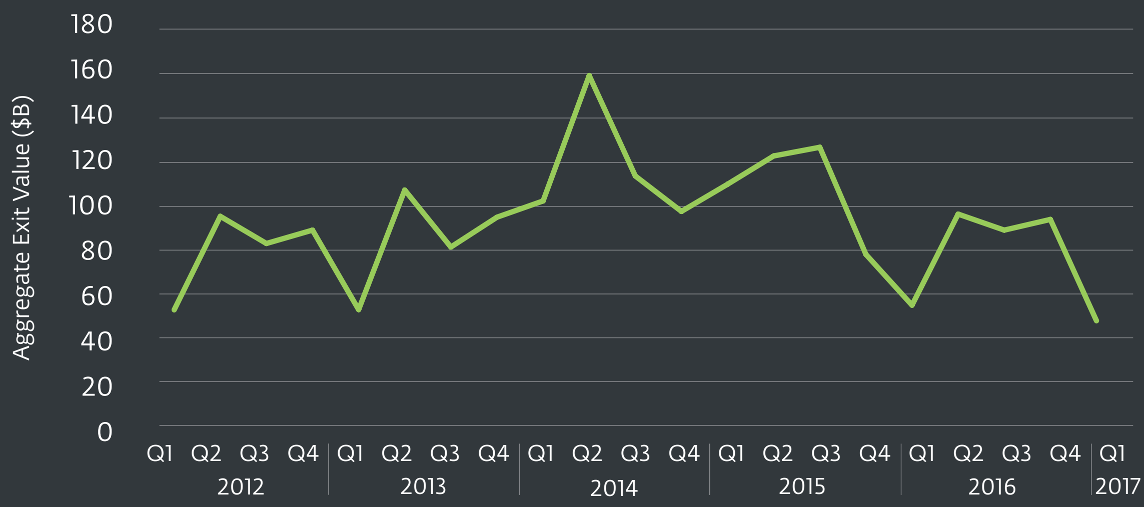
Fanelli: From my perspective, the Q1 numbers seem to be more of a blip, as opposed to something interesting from a trend perspective. When I talk to my private equity firm clients, they know that right now is a good time to sell. The key is, they aren't bringing companies to market until they've executed on their strategy that they set out when they acquired the company.

Bistrong: I think we will see a pickup throughout the year in terms of exit deal pace, partly because the market is accepting of shorter hold periods. And you're seeing these companies cycle through the private equity portfolios more rapidly than we've seen in the past.

Privcap: The most important exit route for private equity firms has historically been the sale to a strategic buyer, a corporate buyer. Anecdotally, do those types of buyers remain keenly interested in growing through acquisition?

Bistrong: Our 10-year track record for tech deals—where I focus—shows that 70 percent of exits go to strategics. In the last 18 to 24 months, the private equity guys have become highly competitive. They've been willing to pay higher multiples for recurring-revenue business models. But the strategics remain as competitive as ever. They've now got a very good acquisition currency if they're a public company, given valuations. And I expect to see balance restored there. ■

PE Exit Value



Source: Preqin