



Tech Private Equity Demystified

February 2022

Private equity backed dealmaking continues its unprecedented run

Significant capital availability and continued economic recovery are driving record private equity dealmaking in the technology sector

37%

Of all technology exits went to PE acquirers in 2021 YTD

2.6x

Growth in number of PE backed technology deals since 2015

45%

Average premium paid by buyout groups for European listed companies in 2021

>\$1tn

Of dry powder in buyout funds seeking to do deals

Recent private equity funded transactions advised by ICON Corporate Finance

Paragon

SOLD TO PE-BACKED PLATFORM

aptean

VISTA
EQUITY PARTNERS

TA ASSOCIATES

JoinedUp

SOLD TO PE-BACKED PLATFORM

beeline*

NMC
NEW MOUNTAIN CAPITAL

muhimbi

SOLD TO PE-BACKED PLATFORM

PSPDFKit

INSIGHT
PARTNERS

juriba

PE INVESTMENT

BGF

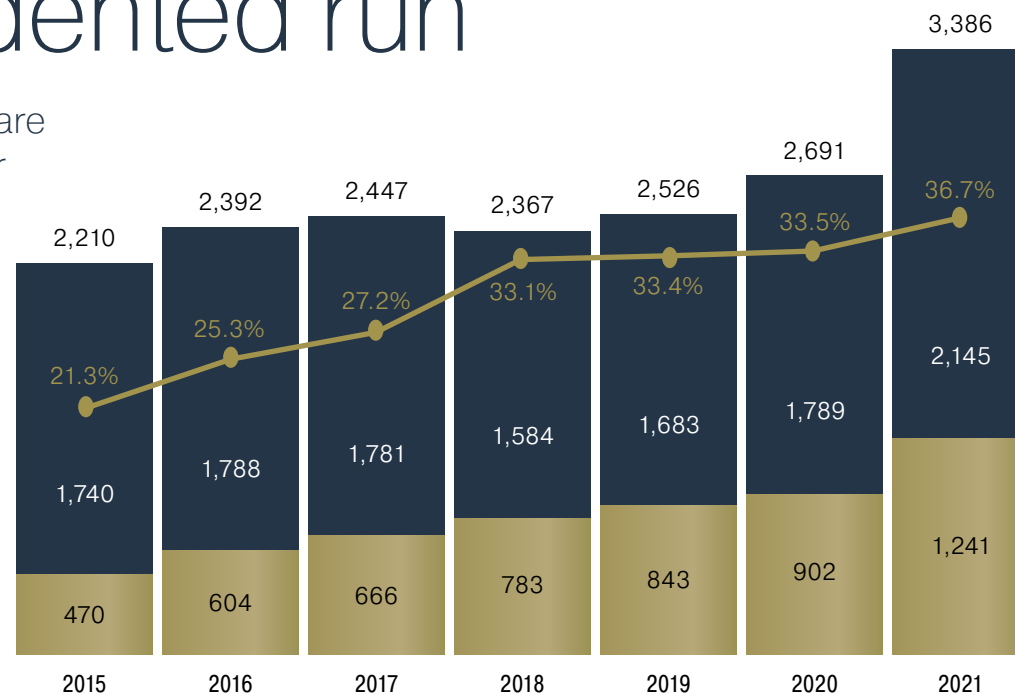
Meritsoft

PE INVESTMENT

SYNOVA CAPITAL

FiveW Capital

of private equity acquisitions
of corp/strategic M&A acquisitions
% of PE transactions



More than one third of all technology exits in Europe goes to private equity (deals in 2021 up +38% on total 2020)

Exit options: private equity vs. trade

Considerations for the shareholders when approaching an exit transaction



Private equity fund types

The types of PE funds and what they look for

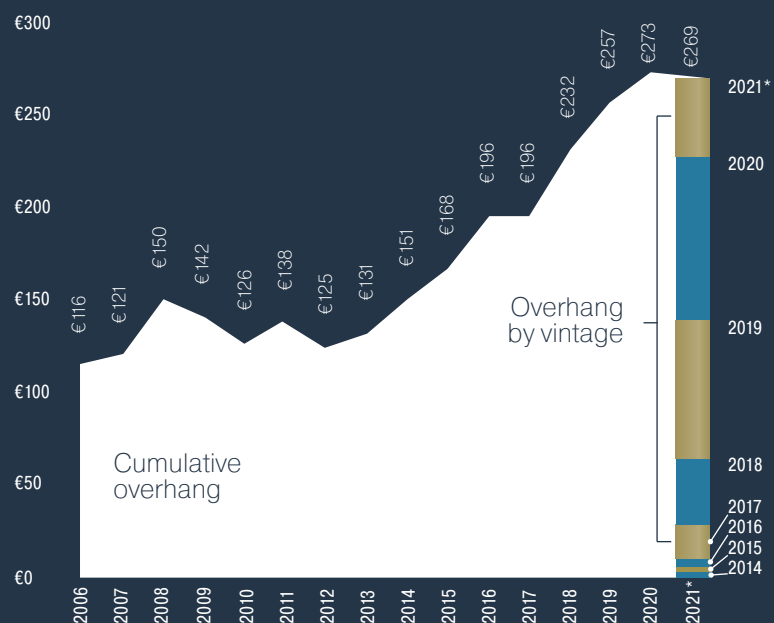
PE FUND CHARACTERISTICS

Stage 	Size 	Ownership 	Specialisation 
<p>EARLY STAGE: VENTURE FUNDS</p> <ul style="list-style-type: none"> Invest in early stage or emerging businesses that generally have limited access to other forms of capital. Focus on primary capital <p>SCALE-UP: GROWTH FUNDS</p> <ul style="list-style-type: none"> Usually a minority investment, in relatively mature companies that are looking for capital to expand operations, enter new markets or finance a significant acquisition. Can include secondary cash-out component <p>BUYOUT FUNDS</p> <ul style="list-style-type: none"> Invest in mature and profitable businesses, usually taking controlling interest and leveraging their equity investment with third party debt to enhance the rate of return 	<p>SMALL- TO MID-CAP FUNDS</p> <ul style="list-style-type: none"> Usually invest in deals worth between \$10m and \$250m <p>LARGE-CAP FUNDS</p> <ul style="list-style-type: none"> Large LBO funds whose fund volume can be larger than \$20bn 	<p>INDEPENDENT FUNDS</p> <ul style="list-style-type: none"> Solicit help from third-party investors. Third-party investors might include other corporations, the government, individual investors and lending institutions <p>CAPTIVE FUNDS</p> <ul style="list-style-type: none"> Many companies establish captive funds to build partnerships and make private capital investments. Funds are usually supported by corporate capital For example, Salesforce, Inc. has a captive fund portfolio managed by Salesforce Ventures and focused primarily on managing a broad investment portfolio that seeks to invest in growing technology companies 	<p>SPECIALISED FUNDS</p> <ul style="list-style-type: none"> Focusing on portfolio companies in specific segments or verticals (horizontal: B2B Software, IT Services; vertical: Cybersecurity, Digital Media, FinTech, Manufacturing) Specialisation can be a crucial differentiator but also contains higher portfolio risk due to a lack of diversification <p>REGIONAL FUNDS</p> <ul style="list-style-type: none"> Target investments in a particular region or geography

Large amount of funds actively seeking technology opportunities in Europe

Growth capital and buy-out firms have never faced more competition

EUROPEAN PE FUND'S DRY POWDER (€Bn)



	GROWTH				BUY-OUT			
EUROPE								
NORTH AMERICA / GLOBAL								

What private equity is looking for in a target company

A high quality management team with a cash-generative, established business plan



EXIT

- ▶ The typical exit horizon for a private equity investor is three to five years, however in recent years the holding period has increased. In the US, the top-quartile holding period now stands at 7.1 years, the median remains stable at 5.2 years
- ▶ However in this extended bull market, many portfolio companies have hit their financial targets, which would typically trigger a sale, but still hold promise. This results in PE firms trying to hold their winners for longer and are coming up with innovative methods to do so
- ▶ Types of exit: strategic trade sale, secondary PE funding/recapitalisation or an IPO

RETURNS

- ▶ Private equity funds typically target a return of 25%-30% internal rate of return (IRR) and a multiple of 2.5x - 3x on their initial investment monies
- ▶ The rule of thumb being that PE wants to triple its initial investment in 5 years (30% IRR)

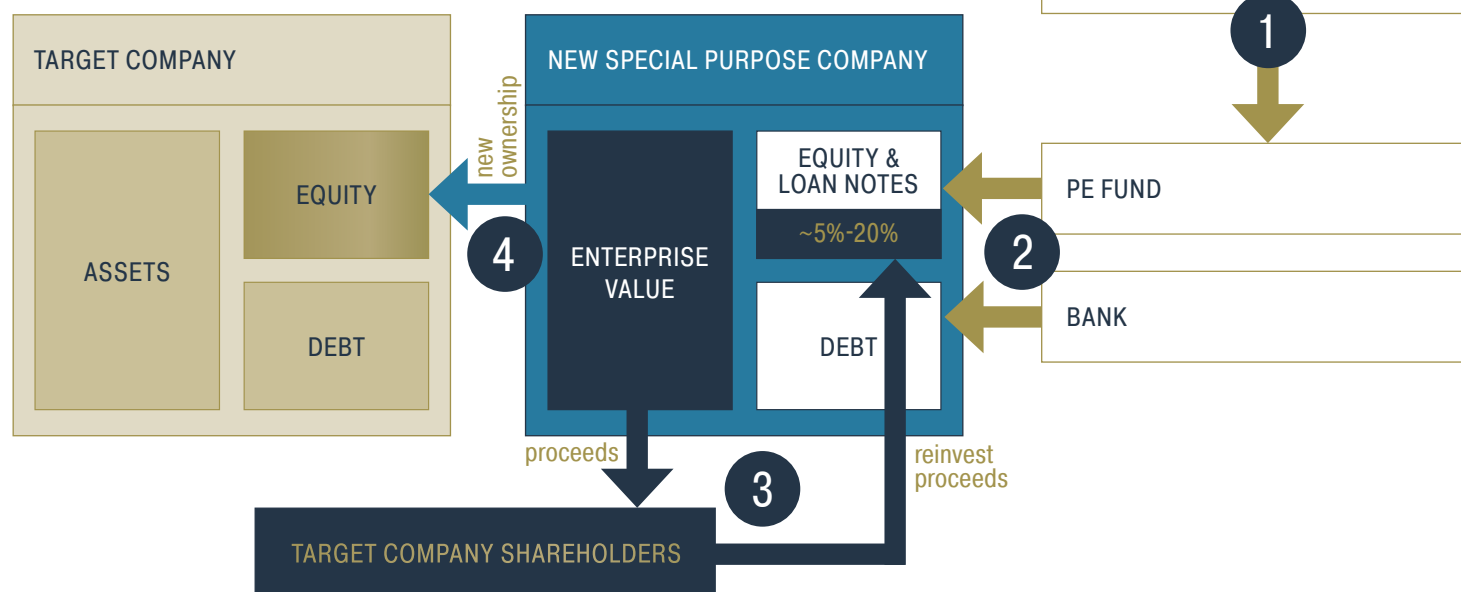
ASSOCIATED COSTS

- ▶ Due diligence and legal fees
- ▶ Arrangement fee (percentage of equity cheque)
- ▶ Loan note interest (paid versus rolled up interest)
- ▶ Annual monitoring fee
- ▶ Board director and observer fees
- ▶ Chairman fees

How private equity works

The basic anatomy of the leveraged buyout deal

Acquisitions financed with a combination of equity and borrowed money, which is secured by the target's cash flow and assets



1 Investors allocate money to a PE/VC fund. They commit money directly (e.g. Family Offices) or on behalf of others (e.g. Pension funds)

2 The target's Enterprise Value is financed through a combination of Equity and Debt

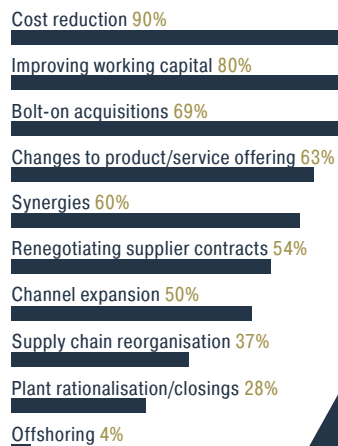
3 The current shareholders/management team reinvest a part of their proceeds for usually 5%-20% of the shares of the new company. The majority of this investment will, as with the PE investor, consist of loan notes compared to a small equity investment

4 The TopCo controlled by the management team and the PE firm has the new ownership of the target

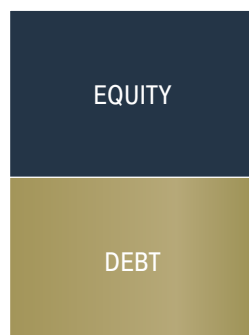
Private equity value creation

Drive transformational growth during a relatively short period, resulting in significant returns

“Which of the following is part of your value creation strategy?” †



ENTRY COST



Rule of thumb:
Triple their initial
investment in 5
years (30% IRR)

EXIT PROCEEDS

REVENUE GROWTH

MARGIN IMPROVEMENT

ACQUISITIONS

MULTIPLE EXPANSION

DEBT PAYDOWN

YEAR 0

Usually 3-5 years

YEAR X

ORGANIC REVENUE GROWTH DRIVERS

- ▶ Geographic expansion
- ▶ Price increases and improved selling
- ▶ Change of offering
- ▶ New products
- ▶ Deploying superior management
- ▶ Tapping into PE knowledge networks

Improving each tool by 1%
affects profit differently ‡

Price 6.0%

Variable cost 3.8%

Volume 2.1%

Fixed cost 1.1%

COST REDUCTIONS

- ▶ Operational efficiency
- ▶ Procurement transformation
- ▶ Improved financial systems and controls
- ▶ Overhead cost reduction
- ▶ Capacity adjustments

BUYING AND BUILDING

Growing via well-executed and integrated add-on acquisitions is a key ingredient of the Private Equity playbook on how to create value for their portfolio companies.

The rationale is driven by the ability to realise cost synergies, economies of scale, achieving market power with customers and suppliers, improving financial performance of targets, strengthening their balance sheet and providing access to new markets and capabilities.

BUYING AT 5X AND SELLING AT 7X

Multiple expansion opportunities is highly dependent on the underlying market conditions. Fierce competition among PE firms has created bidding environments that have led to aggressive pricing for the initial target acquisition, limiting the multiple arbitrage potential. This also applies to buy-and-build multiple arbitrage.

LEVERAGE

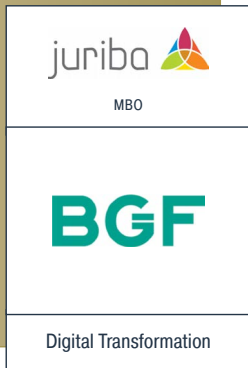
The third party debt used for the initial acquisition is paid down over years with the cash flow generated by the acquired company. This leaves a much larger portion of the exit proceeds for the shareholders.

Is private equity the right choice?

Considerations for the shareholders, company and management when pursuing a private equity transaction

Financial	Management	Governance	Cultural
<ul style="list-style-type: none"> ▶ Management's confidence and belief in achieving the business plan ▶ Ability of the business to handle debt, cash flow to service it ▶ Ongoing costs to the business: bank debt interest and non-rolled up loan note interest, monitoring fees, board fees, etc. ▶ Quantum of cash out and roll-over requirement for management team ▶ Breakdown of roll-over reinvestment into loan notes and equity 	<ul style="list-style-type: none"> ▶ Newly issued services contracts with onerous good/bad leaver provisions when management team member is to leave before a joint exit event ▶ Sweet equity participation for existing and new management team members ▶ Option scheme for key staff and additional hires ▶ Appointment of chairman ▶ Appointment of investment director and board observers 	<ul style="list-style-type: none"> ▶ Monthly management reporting with increased scrutiny of performance and projections ▶ Typically at least ten board meetings per year ▶ 'Swamping' rights: step-in/enhanced voting rights for Private Equity to obtain a voting majority in specific circumstances, such as significant under-performance or default ▶ Consent matters that require PE's approval on areas such as capital expenditure, large contracts, partnerships, hirings, M&A, changes to share capital, bank financing, director appointments 	<ul style="list-style-type: none"> ▶ The business and management are ready for a step up in pace ▶ Board composition and voting rights dominated by private equity ▶ Appointment and relationship with investment director and chairman ▶ Ongoing monitoring requirements: focus on performance and cost ▶ Sensitivity of PE house for (country) specific cultural matters, such as business continuity, employee rights

Case study: Juriba raised growth investment from private equity firm BGF



SECTOR

Enterprise Software
IT Infrastructure Mgmt
Digital Transformation

DEAL TYPE

PE Growth Investment

Transaction summary

- ▶ Juriba, headquartered in London, is a developer of IT migration management software designed to run IT infrastructure projects across the enterprise, such as Windows 10, Office 365, email, server, phone, and desktop virtualisation
- ▶ Its flagship product, Dashworks, is a command-and-control platform enabling organisations to efficiently accelerate IT transformation projects at a reduced cost
- ▶ Juriba's customers and channel relationships include leading global giants such as HP, Flexera, DXC, Atos, IBM, NTT, Wipro, HSBC, GSK, AIG, Morgan Stanley and Deutsche Bank, within key industry verticals including the financial services, utilities, pharmaceuticals, retail and media sectors

ICON's added value

- ▶ ICON was the exclusive adviser to Juriba running a dual track process targeting trade acquirers and private equity
- ▶ Assisting the management shareholders in structuring an efficient and competitive process
- ▶ Navigating a complex Private Equity deal structure and recapitalisation



Client statement

“ We are pleased to announce our new partnership with BGF to fuel further growth and international expansion. This is an exciting time for Juriba as we make further inroads into the US market and we are looking forward to working with the team at BGF in achieving the ambitions of the business and in continuing to scale. BGF's patient approach and strong record in supporting businesses in the IT and Software sector makes them a perfect partner for Juriba as the business moves forwards. ”

Iain Fraser
Founder & Chief Sales Officer, Juriba

juriba 

Case study: Paragon acquired by Vista and TA Associates backed Aptean



SECTOR

Enterprise Software
SCM & Logistics
Software

DEAL TYPE

Sale to PE backed
sector consolidator

Transaction summary

- ▶ UK based Paragon's software powers the logistics and distribution of billions of dollars worth of goods around the world
- ▶ Paragon is one of the most sophisticated and advance solutions in class. Its feature rich product set underpinned by highly evolved algorithms is ideally suited for distribution of goods in densely populated urban environments taking into account restrictions around emissions, congestion charges, noise pollution and localised peak times of traffic
- ▶ US based Aptean is a global leader of mission-critical enterprise software solutions. The acquisition of Paragon by Aptean furthers Aptean's presence in the European market and adds purpose-built software designed to meet the expanding supply chain needs of its customers around the globe.
- ▶ With Paragon joining the Aptean group, Paragon's algorithms now sits at the heart of the delivery of billions of pounds worth of goods.

ICON's added value

- ▶ Identifying and presentation the key attributes of Paragon that would be relevant and attractive to potential acquirers
- ▶ Significant reach to attract the attention and solicit bids from the most relevant, deep-pocketed and PE-backed acquirers
- ▶ Two-stage auction process
- ▶ Rapid closing and DD process

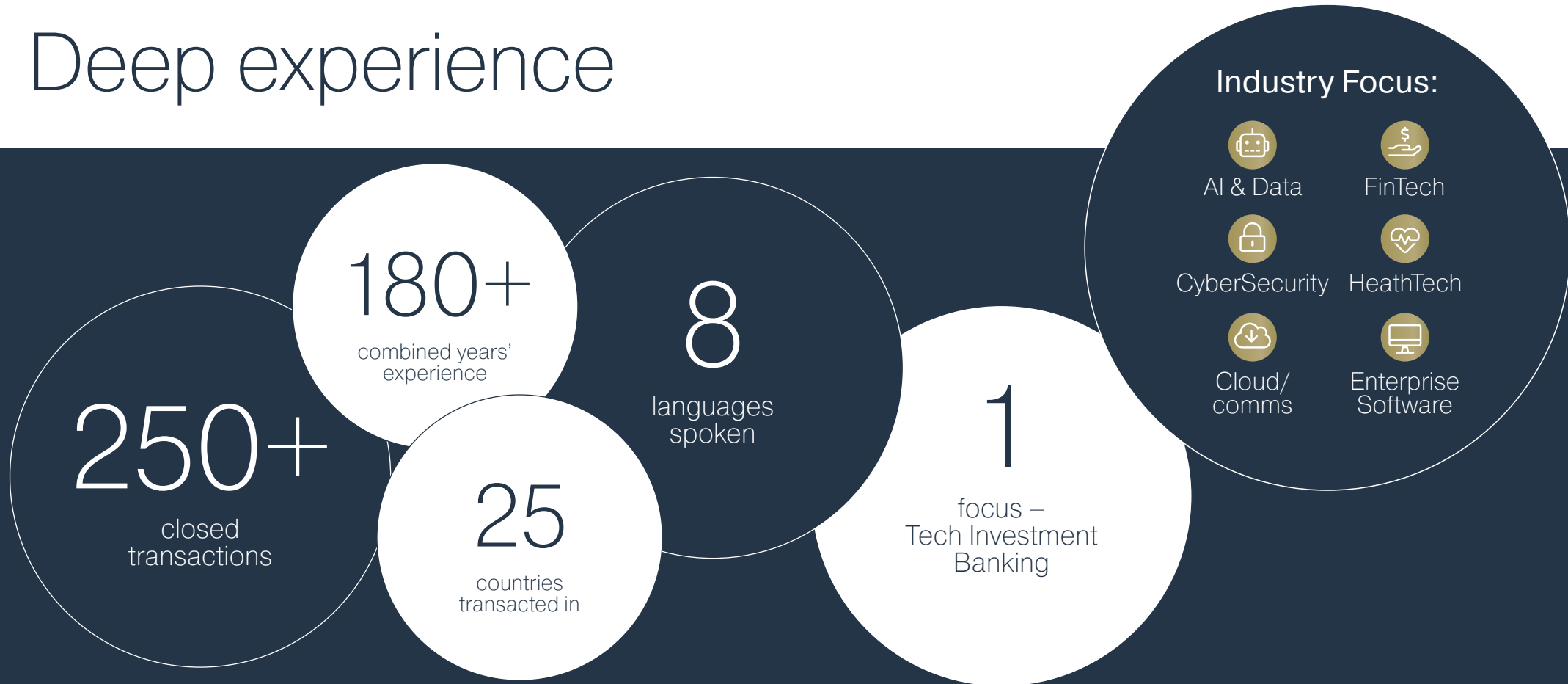
Client statement

“ We are really pleased with the outcome, for both the shareholders and the future of the business. We certainly achieved the synergy we were looking for in the new owners. ICON has been fantastic throughout the process, keeping the project moving all the way, and a pleasure to work with. We absolutely chose the right company to advise us. ”

Charles Nockold (Founder) & Will Salter (CEO)
Paragon

About ICON Corporate Finance

Deep experience



Banker Backgrounds

MOORELAND
PARTNERS

SOCIETE
GENERALE

Deloitte.

OPPENHEIMER

LLOYDS
BANKING
GROUP

KPMG

ROLLS
ROYCE

pwc

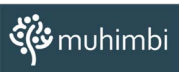



















451 Research®

Global transaction record



Global transaction record

Selected recent deals advised by ICON Corporate Finance

 <p>SOLD TO</p>	 <p>STRATEGIC INVESTMENT</p>	 <p>STRATEGIC INVESTMENT</p>	 <p>STRATEGIC INVESTMENT</p>	 <p>SOLD TO</p>	 <p>SOLD TO</p>
 <p>INSIGHT PARTNERS</p> 	 	 <p>BRIDGE GROWTH PARTNERS</p> 	 	 <p>NMC NEW MOUNTAIN CAPITAL</p> 	 
 <p>PE INVESTMENT</p>	 <p>SOLD TO</p>	 <p>SOLD TO</p>	 <p>SOLD TO</p>	 <p>SOLD TO</p>	 <p>SOLD TO</p>
 	 	 <p>V-VISTA EQUITY PARTNERS TA ASSOCIATES</p> 	 	 	 <p>AQUILINE CAPITAL PARTNERS LLC</p> 
 <p>SOLD TO</p>	 <p>STRATEGIC INVESTMENT</p>	 <p>SOLD TO</p>	 <p>SOLD TO</p>	 <p>SOLD TO</p>	 <p>SOLD TO</p>
 	 	 	  	  	 

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