

OPALESQUE

PRIVATE EQUITY STRATEGIES

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Welcome to the latest issue of Private Equity Strategies. We are covering a lot of ground this month as our insiders uncover new opportunities, and discuss possibilities for next year. Our editorial piece looks at microlending, with the president and CEO of Women's World Banking.

In our Dealmaker Q&A, Dave Moylan the COO at Yennai Capital breaks down how he evaluates potential deals, and new opportunities in the lower middle market.

Regs Watch offers updates on a full scope of new guidelines, including calls for regulatory changes in the UK and a new video discussing what the current carried interest tax structure means for private equity. This month we also have a Regs Note which covers expiring tax provisions in the US tax code that could impact portfolio companies.

Movers and Shakers looks at the recent Accruent transaction and opportunities for growth equity firms in the technology sector.

We also chat with EBF associates on their latest fund closure and learn about opportunities in hard assets.

Finally, we offer brief updates on recent transactions and people moves in Quick Hits. Our events calendar will look at the events kicking off 2014. Please send any updates or feedback on this publication to me at

mccann@opalesque.com - I'd love to hear from you.

Best,
Bailey McCann
Editor
mccann@opalesque.com



About the Editor: Bailey McCann is a reporter and analyst based in the US, with experience covering government, policy and regulatory issues in addition to her coverage of alternative investments. Prior to her work with Opalesque, she provided research and media intelligence for members of Congressional and White House offices, government contractors, and Fortune 500 companies. She has also reported on, and done policy analysis of state and local government issues. She may be reached directly at mccann@opalesque.com

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As Microfinance Grows, Private Equity Sees A New Emerging Markets Play

Bailey McCann
Private Equity Strategies

The conversation around private equity and private equity transactions often centers on figures in the tens, if not hundreds of millions. Reading the wires a transaction of \$5 million – a notable sum to many – is unlikely to draw much interest from GPs or LPs. Yet, in many parts of the world a \$100 transaction can be life changing, and these tiny sums are catching the eye of private equity.

Nonbank lending, peer-to-peer loans, and even crowdfunding organizations are getting more media coverage as small to medium sized businesses and startups get more creative in their hunt for capital. Institutions are flocking to firms like Lending Club and others to get in on the small loan land rush. Yet, in emerging and frontier markets, an older story – microfinance – is growing, providing a way out of poverty for both men and women.

Emerging markets are forecasted to provide almost half of the macroeconomic growth worldwide over the next year, and in many cases that growth is directly tied to microfinance loans. As a group, microfinance lenders have been expanding, but until recently were largely off the radar of firms in the developed markets. A few private equity funds have been involved in microfinance for many years, but others, already familiar with specialty finance and lending are starting to take a look as microfinance loan books continue to grow. According to the Microfinance Institutions Network (MFIN), in India, microfinance loan books in that country **grew 54% over the last year.**

The industry itself is also getting greater attention from regulators as they move to crack down on loan-sharking and register legitimate operations. The Bank of Ghana (BoG) created a new unit within the central bank to focus specifically on regulating and



registering these organizations; so far almost 300 microlenders have been registered.

"Microfinance is already a commercial success," Mary Ellen Iskenderian, President and CEO of Women's World Banking tells Private Equity Strategies. "Focus groups tell us that in emerging and developing economies having a bank account is deeply personal – it is aspirational. But, financial services firms have to be vigilant with the trust people place in those institutions."

Women have been foundational in the development of the microfinance industry. Early microfinance lenders focused on reaching out to low-income women, helping them to grow small businesses and move up the income ladder. As the industry has grown, microloans are going out to men and women, as well as small but established businesses. Women's World Banking still focuses on building products that will reach low-income women and ensure that lenders lend to a more diverse group.

"As microfinance became more successful, the percentage of women borrowers has gone down. We've seen that as lenders partner with commercial lenders, fewer loans are being made to women. Women tend to take smaller loans, and men tend to take bigger loans, which are more profitable. But, portfolio quality goes down as lenders move away from women," Iskenderian says.

This push-pull between commercial lenders and microfinance organizations can also be an opportunity for private capital. WestBridge Ventures II just increased its stake in Indian-microlender SKS, buying out Sequoia Capital's interest. SKS Microfinance is India's only listed microlender, but other funding rounds for private microlenders in the country have also been successful.

Continued next page...

Women's World Banking recently partnered with Nigeria's Diamond Bank to offer microfinance products in addition to their traditional retail banking offerings. "When we partnered with Diamond Bank, one of the largest open markets in Nigeria was literally operating every day right outside the front door of the bank, but many of those people couldn't get an account there," Iskenderian explains. Through the partnership, microbarrowers can start savings accounts with the bank and obtain loans, building a history that will help them move up the income ladder and into more traditional banking products at Diamond as their income grows.

"We are starting to see some interest from European banks in these countries," she says. "It's starting to make sense as the assets grow but affordability is still critical. We never pitch a product to banks that we think they can't afford, but the upfront cost for microfinance is often high. So there is a partnership need for philanthropic and private capital, in addition to what the banks can do. Still, banks that want to be involved in emerging markets understand the value."

Investors are getting in on the other side backing organizations like Women's World Banking which has its own fund and an investor base that includes family offices, high net worth individuals and institutions. From the investor side, finding a fully registered and regulated organization that is profitable in emerging markets cuts out a lot of the guesswork and risk more common to those markets.

Dealmakers Q&A: Sellers May Be More Optimistic, But It's Still A Buyers Market In Private Equity

by Bailey McCann,
Private Equity Strategies

Sellers in the lower middle market are starting to get more optimistic, but potential buyers are still remaining cautious according to Dave Moylan, Operating Partner & COO at Yennai Capital. New York-based Yennai Capital takes control equity positions in small to middle market US businesses with \$10-100MM in revenues. Private Equity Strategies spoke with him about what makes a company stand out and where he sees opportunity moving into 2014.

"There is a lot more deal activity right now, but the number of deals that are actually closing show that there is still a misalignment of expectations between buyers and sellers," he says.

Part of this separation between buyers and sellers is based on the more nuanced view buyers are taking of the market overall. Potential buyers are looking at more than just balance sheet and management. "As we start digging in and focusing on companies we're looking at regional risk, competitive risk, not just management teams," Moylan says. "For example, if a company has one customer for 60% of the revenue, we have to look at that knowing on day one what will that mean for us, especially if that relationship sees some tension. We also want to look at how we can diversify away from being a single customer business."

When firms like Yennai do look at management teams, chemistry and work ethic define that evaluation. "We want to see the whole team pitching in, it's the same as the customer base, if it's one person why is it one person doing all the work? What can we do then on day one?"

For the companies themselves going into these transactions, Moylan reports that entrepreneurs are better advised and more realistic than they were during the frenzied years leading up to the crisis. "Owners are getting a little more savvy about what they ask for, they don't want the costs to be as high or the time horizon to be as long. They're asking for other things too like greater tax efficiency and employment agreements."

The lower middle market is starting to get crowded as more funds look for ways to deploy capital, and still find high quality companies. As a result, players in the space are starting to see valuations tick up, but potential headwinds, like Fed tapering could make those valuations more expensive. "Bigger funds are starting to look at this part of the market, and you're seeing valuations reflect that. If they pay a 4x or an 8x multiple it's not a big deal relative to the check size they are used to writing."

Opportunities in this part of the market are also regionally driven. "We're looking at places like the west coast. California is interesting because of the size of the economy and the evolving regulatory environment there. Similarly, the upper Midwest is offering some opportunities in oil and gas, those economies will have to look at infrastructure and sustainability going forward."

Some cities in newly formed energy markets have capped local development as state and local governments look at how local infrastructure will be impacted. "If you bring in 20,000 people overnight around oil it makes for a big demand on local infrastructure. Those trucks are heavier so roads come into question, housing is an issue and the businesses that follow right away are often check cashers, nightclubs, and convenience stores. If we're looking at companies in those towns we're going to want to see what those governments do on the regulatory side and are there more sustainable businesses coming in. Is there a Wal-Mart? Or grocery stores? That can be evidence of a longer term play."

Regs Watch: Brief Updates on Changes in Regulation for Private Equity

As journalists like me and lawyers have written ad nauseum, new and ever more regulations are in the pipeline for private equity and alternatives as a whole. Here we will hit on some of the cases of note and provide links to new guidance over the past month.

Tim Geithner Went Easy On PE Now He Works For It

The Huffington Post [highlights](#) some of former Treasury Secretary Timothy Geithner's views on regulating private equity when he was in office, following his move into the industry after leaving his post.

Whistleblower Sheds Light On PE Transaction Fees

A former private equity buyout exec has [filed a whistleblower report](#) with the SEC in an effort to shed light on buyout transaction fees, which he says go too far.

Cuomo's Tax Relief Plans Could Run Smack Into NYC Mayor-Elect De Blasio's Plan To Raise Taxes

New York's Governor Cuomo [is looking at](#) newly elected Mayor De Blasio's plans for tax hikes in Manhattan. Cuomo says new tax hikes could curb job growth.

Dodd-Frank Delays Keep PE Money On The Sidelines

Panelists at Mergermarket's recent [M&A Symposium](#) say the slow pace of Dodd-Frank implementation is keeping capital that could go into PE on the sidelines.

ECB Sheds Light On Banking Union Proposal

The European Central Bank [released](#) some new thoughts on the proposed European Banking Union. If passed, the union could impact how alternative investment firms do business on the continent, adding more regulatory consideration for firms there following the implementation of AIFMD.

Hong Kong May Look At New Allowances For PE Firms

The Financial Services Development Council [may be considering](#) new allowances for PE firms inside Hong Kong's regulatory regime.

If passed, the rules would let private equity firms set themselves up as limited partnerships there.

SEC Promises More Effective Regulation of Private Equity Firms

SEC officials [have noted](#) in recent public remarks that they are working to more effectively monitor private equity firms and will be looking at better ways to do so over the coming year.

Schulte, Roth & Zabel Release Distressed M&A Data

A new report out from law firm Schulte, Roth & Zabel looks at the opportunities for distressed investing in the US and EU, along with distressed M&A opportunities over the same area. Read the full report [here](#).

PE Firms Could Learn From Retailers

Say what? PE firms could learn from retailers on marketing in the post-JOBS Act world says Dan Darchuck of Topturn Capital - "Retailers don't use sex, celebrities, and style for fun," he explains. "They didn't just wake up one day and say, 'We're bored, let's use Facebook.' Retail marketers have been forced to rely on these tools as it has proven to be the only way that they can engage consumers. When the email in-boxes of institutional investors fill up, and their mail boxes are full of 100s of Power Point marketing decks, the current way in which people market alternative investments will grind to a halt. Investors are always going to need information, however, the process of engaging those investors is going to change dramatically."

Regs Note: The Tax Man Cometh

Bailey McCann
Private Equity Strategies

57 US tax provisions will expire on December 31. Not many of them have been renegotiated in congress, which seemed to be more focused on pointless fights and taking days off. Expiring provisions could have a significant impact on portfolio companies, which will see expense limits drop from \$500,000 to \$25,000 under section 179. The work opportunity tax credit and research and development credits are also expiring.

Some of these provisions are likely to come up during forthcoming budget negotiations slated for the beginning of this year when the US runs up against its debt ceiling yet again. Carried interest is also projected to be part of that debate.

The on-again, off-again nature of the expiring provisions creates a lot of uncertainty, and that uncertainty then creates more complexity in the tax code," says Jeffrey A. Porter, CPA. Porter also chairs the American Institute of CPAs (AICPA) Tax Executive Committee.

"It's not unusual for the expiring provisions to be reinstated retroactively, also adding to the uncertainty and the complexity for long-term planning. Many taxpayers have come to anticipate that these expiring provisions are going to be retroactively reinstated. If they're incorrect, that can prove to be a very costly decision for a small or medium-sized business. And the impact is not just limited to businesses. There are a number of individual provisions that are expiring, such as the deduction for state and local sales tax, the above the line deduction for tuition and tax-free distributions from individual retirement plans for charitable purposes."

The full list of expiring provisions is available [here](#).

Movers & Shakers: TA Associates Takes Majority Stake In Accruent

Bailey McCann
Private Equity Strategies



Boston-based TA Associates, a global growth equity firm is taking a majority stake in Accruent. Accruent provides real estate and facilities management software and has been in business since 1995. TA took over the majority interest from another private equity firm, Vista Equity Partners, which will still maintain a significant, although not controlling interest in the business.

Accruent provides market planning, site selection, project management, lease administration, facilities and space management software that is purpose-built for specific industries. TA Associates makes growth equity investments globally, and has to date raised approximately \$18 billion in capital and invested in more than 430 companies.

Vista Equity Partners has had a four-year interest in the firm, overseeing four strategic acquisitions. Accruent is now the largest independent provider of this type of software. The customer base has grown from 400 to over 1,200 customers that use the company's software in 56 countries.

Typically, growth equity stories go to newer companies, but Hythem T. El-Nazer, a Director at TA Associates explains that TA still sees significant opportunities for growth. "Over the last decade or so we have done several transactions where we are recapitalizing a business and partnering with existing investors. I think it was a real positive in our mind that Vista wanted to stay," he tells Private Equity Strategies. "This is a new relationship for us with Vista, but we are very comfortable with the team."

In a recent report, Gartner estimates that, "By 2015, more than 75% of the Forbes Global 2000 companies will manage the No. 2 enterprise budget item (facilities) with Integrated Workplace Management Systems (IWMS). The C-suite is beginning to take notice of the enterprise's second largest budget item — the life cycle of its facilities portfolio — and to seek an integrated solution to its management."

Over the last four years, Accruent has updated its business model and products from on-premise software to cloud-based solutions that are easier and less expensive for customers to implement. One hundred percent of the company's new software revenue is now derived from cloud products. The company has posted 15 consecutive quarters of EBITDA growth while increasing customer satisfaction by 39% and attaining customer retention of 96% during this period.

Over the near term it looks like Accruent will remain private, when asked about an exit strategy, El-Nazer, said, "When we make our investments we don't always look at an exit strategy. We believe that as the company executes there will be a variety of opportunities to consider. Accruent has many of the hallmarks of a TA company; it is growing and has a solid product offering. The market for their services is still fragmented and we think that will provide organizing and acquisitional opportunities for us to take advantage of."

He expects similar transactions over the coming year. "2013 was similar to 2012 for us – very active dealflow. We expect that to continue through 2014."

EBF & Associates Closes \$800 Million Merced Partners

Bailey McCann
Private Equity Strategies

EBF & Associates, L.P. has closed its Merced Partners IV, L.P. fund at its hard cap of \$800 million. The fund had an initial target of \$750 million. Merced Partners IV will make opportunistic value investments in niche financial instruments and hard assets, pursuing the same investment strategy successfully utilized in its predecessor fund, Merced Partners III, L.P. (a \$567 million fund closed in December 2010). The Fund will target opportunities generally ranging from \$10 million to \$100 million. Limited partners in the Fund include endowments, foundations, state and corporate pension plans, and family offices.

Since 2005, EBF has raised six multi-year lock-up funds with approximately \$2.4 billion in aggregate commitments. EBF also manages Merced Partners Limited Partnership, an annual liquidity fund formed in 1990. EBF has 37 employees including six partners and 12 investment professionals.

Private Equity Strategies spoke to Andrew Platt, Managing Director at EBF about the fund and what the firm plans to do going forward. "In all it was about three and a half months from first close to final close, and we were oversubscribed on this fund. So I think some of the challenges that others have seen on the fundraising side, we were able to avoid. That said we also have a strong commitment to off-cycle marketing. It's a continuous conversation with our investor base, and I think that makes it easier when we are raising new funds," he says.

So far the new fund is already 10% invested, with a strong pipeline of opportunities to consider going forward. "We like a lot of what we are seeing in hard assets, ships, aircraft. Ships and aircraft are what we call globally ubiquitous assets, everyone uses them, and everyone needs them." Almost all of the investments across EBF's fund group are unlevered and the funds themselves are unlevered, Platt notes.

"I think investors now are more comfortable with lock-ups and longer investment periods in the private equity structure, they are socialized into that. It's a different conversation in a hedge fund structure, but even there it is possible as well. Investors now are looking for returns and they are looking for cross-asset buckets, alternatives to their alternatives, if you will. We've been able to build on that need and provide a value proposition."

Quick Hits

Canada's Pension Plan Investment Board will invest \$200 million to get an 80 percent stake in a real estate joint venture with India's Shapoorji Pallonji Group, its first foray into the property market in Asia's third-largest economy.

Maysteel LLC, a manufacturer of sheet-metal enclosures in Allenton, has been sold to Los Angeles-based Revolution Capital Group for an undisclosed sum. The company makes enclosures for everything from vending machines to medical equipment.

Activist investors, and private equity firms with retail business interests are said to be lining up for retailer Aeropostale. The news came during the busy holiday shopping season, and could signal renewed interest in retailers.

The Financial Times **reports** that \$789 billion is sitting on the sidelines in dry powder for private equity firms. Firms are hunting for opportunities and dealing with uncertainty.

In conjunction with the recently closed sale of its Insurance Solutions Division, Zywave's Financial Solutions Division is being renamed as Advicent Solutions. Vista Equity Partners, mentioned earlier in this issue will be the controlling PE interest in the firm.

Private equity firm CX Partners has revised its proposed deal with Natco Pharma, bringing its investment down by 30% to \$18 million

European buyout firm Montagu Private Equity has sold Polish telecommunications company Emitel to infrastructure firm Alinda Capital Partners for \$1 billion.

Carlyle Group LP has finished raising money for its latest U.S. private equity fund, the new \$13 billion fund will focus on similar diversified opportunities that are the hallmark of previous funds for the firm.

People moves: Dave Calhoun is stepping down as CEO of Nielsen after a nine-year run. He will now be going on to join private equity at the Blackstone Group.

According to The Times Of India, Private equity majors Apax Partners, Carlyle Group and Baring Asia are among the bidders who have placed initial bids to acquire business process outsourcing company SourceHOV, jointly owned by Citigroup Venture Capital International and Mumbai-listed HOV Services.

Events

Private Equity Investing in Transportation, Distribution & Logistics Companies

December 5th, 2013 | New York
Hosted By: Capital Roundtable

Private Equity Investing in For-Profit Education Companies

January 6, 2013 | New York

Best Practices for Launching & Managing a BDC

February 6, 2013 - New York, NY
Hosted By: Capital Roundtable

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PUBLISHER

Matthias Knab
knab@opalesque.com

EDITOR

Bailey McCann
mccann@opalesque.com

ADVERTISING DIRECTOR

Greg Despoelberch
gdespo@opalesque.com

www.opalesque.com
