



VENUE® Market Spotlight

## BUYOUT FINANCING

April 2015 Edition

**RR DONNELLEY**



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# WELCOME

Dear Valued Reader,

Welcome to the April 2015 edition of the *Venue Market Spotlight*. This month's issue will look at the current environment for leveraged buyout financing.

In this month's report, respondents remain optimistic about future buyout financing with a majority believing this will rise in the next year. They are right to think so since the pipeline for buyouts has been active. This is especially true for certain sectors including technology, which is one of two sectors that respondents believe will receive the most buyout financing in the next year. For instance, the second largest buyout so far in 2015 is in the technology sector – Informatica Corp.'s US\$4.5bn acquisition by private equity firms Permira and Canada Pension Plan Investment Board, according to Mergermarket data.

However, almost a third (32%) of survey participants believe that leveraged buyout financing will decrease over the same time period. Respondents point to the leveraged lending guidance issued by banking regulators in 2013 as one of the reasons for the expected drop. The guidance placed a cap on how much leverage financial institutions can provide leveraged buyouts.

This finding is echoed in a recent Barclays report, *U.S. Credit Alpha: Patience May No Longer Be a Virtue*, that said that the guidance "has started to have a significant effect on the type of deals that are completed." The report stated that in Q4 2014, the leverage in loans issued for the purpose of leveraged buyouts dropped slightly to 5.6x from roughly 5.9x over 2014's first three quarters. Since Barclays said that this leverage had been rising annually since 2009, the decline, even though minimal, might indicate the start of an overall shift in underwriting standards.

Barclays believes that the lending guidance can cause both the decrease of LBO issuance, which has comprised 20% of total loan supply in the last five years, and a drop in high-leverage transactions as a percentage of that smaller segment.

At RR Donnelley, we go to great lengths for the businesses that we cater to. Our firm has supported all kinds of highly nuanced M&A deals while expertly dealing with the complexities and difficulties that these transactions represent. The different services that we offer such as the Venue virtual data room helps our clients make the deal process more seamless and efficient. We are always ready to be a part of our clients' transactional activities and their deal-making endeavors throughout this year and beyond.

Sincerely,



Tom Juhase  
President, Financial Services Group  
RR Donnelley

# FOREWORD

The future looks bright for private equity (PE) leveraged buyout financing. According to sixty percent of respondents to this month's *Spotlight*, the availability of this type of financing is set to increase in the next 12 months.

Their belief is not unfounded. Year-to-date, there have been nine North American buyouts worth at least US\$1bn including the US\$5.7bn acquisition by Australia-based PE firm IFM Investors of ITR Concession Co., the operator of the Indiana Toll Road.

Yet away from this, challenges do remain. Almost a third (32%) of respondents expect leveraged buyout financing to decrease in the next 12 months. One reason behind this is that PE firms are facing many challenges today, including regulatory shifts, that can affect the way they do business.

The impact of these challenges can be seen in the numbers. For instance, the number of North American buyouts in Q1 2015 decreased to 196 deals worth US\$29.7bn in Q1 2015 compared with 241 transactions worth US\$41.4bn over the same period last year, according to Mergermarket data.

#### Other key findings include:

- Twenty-six percent of respondents believe that Technology, Media and Telecommunications (TMT) and consumer (24%) are the sectors that will see the greatest availability of buyout financing in the next 12 months.
- Forty percent of respondents believe that PE firms are going to engage in more buying than selling in the next 12 months, while 32% believe the firms will do more selling.
- Thirty-six percent expect Latin America will see the greatest availability of buyout financing in the next 12 months, while 68% of respondents believe that Europe will have the least availability over the same time period.

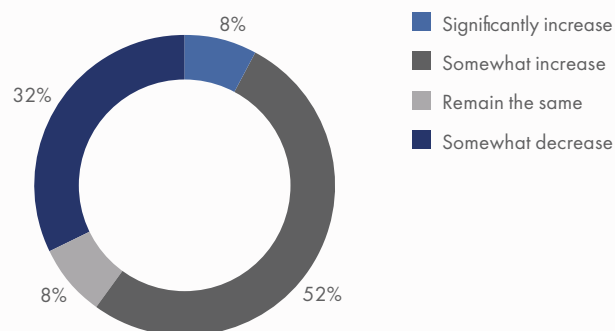
PE firms are still facing difficult challenges that they must navigate. However, for the most part, the market still believes that these firms will remain active buyers of companies in the future.

“ Respondents predict the TMT and consumer sectors will see the greatest availability of buyout financing in the next 12 months.

”

# SURVEY

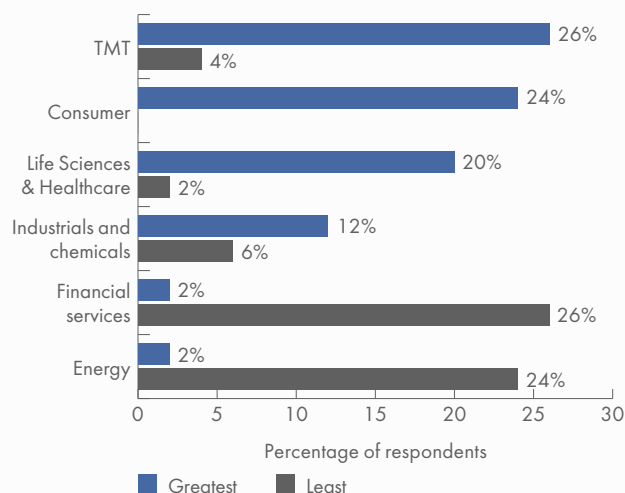
What do you think will happen to the availability of buyout financing over the next 12 months?



In the main, optimism seems to be prevailing regarding the future of financing private equity buyouts. Sixty percent of respondents believe that the availability of buyout financing will increase in the next 12 months, with lenders more amenable given a stronger economy. As a US-based director of corporate development says, "the recovering economy is positively impacting companies as they execute new strategies to make their processes more effective. Their ability to service debt payments will allow them to obtain sufficient financing from various sources."

However, despite this optimism, almost a third (32%) of respondents expect buyout financing to decrease in the next 12 months. One reason for this is that banking regulators have sought to limit how much leverage financial institutions can extend. "Banks, which were the dominant lenders for buyouts, are now restricted in their investments. This has reduced the level of buyout financing and new sources of funding for these deals now have to be identified," says a US-based M&A director.

In which sectors do you expect to see the greatest/least availability of buyout financing in the next 12 months? (Select the top two for each)



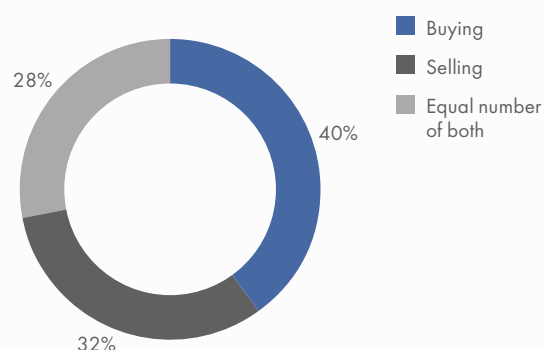
Executives believe that TMT (26%) and consumer (24%) will see the greatest availability of buyout financing in the next 12 months. "The continuous innovations in the TMT sector, specifically in the technology segment, make it attractive to investors," says a US-based strategy director. This appetite for technology investments is exemplified by the US\$5bn acquisition by Permira and Canada Pension Plan Investment Board of data integration software company Informatica, so far the second largest buyout in 2015, according to Mergermarket data.

The consumer sector is also a prime target for buyouts. "Its development and performance is creating opportunities for investment," according to a Germany-based CFO. And indeed, businesses are taking action on this. According to Mergermarket, consumer M&A value rose 66.8% in Q1 2015 compared with Q1 2014, standing at US\$142.2bn.

Financial services (26%) and energy (24%) are the sectors where most respondents believe buyout financing will be scarce.

# SURVEY (CONTINUED)

Do you expect private equity firms to do more buying or selling over the next 12 months?

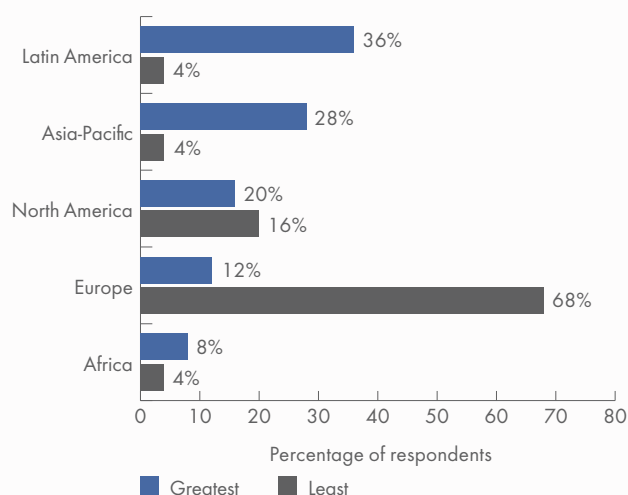


Our survey reveals that buyouts should outstrip exits in the next 12 months. Forty percent of respondents (40%) believe that PE firms are going to engage in more buying than selling over that time period, while 32% believe the firms will do more selling.

PE is driven to purchase assets “by the fact that they have a lot of capital,” says a US-based vice president in corporate development. According to Bain & Co., in 2014, there were close to 6,000 active PE firms (over 1,000 of which were buyout firms) that were looking to make acquisitions in the beginning of the year. At this time, these firms wielded US\$1.1tn in dry powder, with US\$408bn of that amount earmarked for buyouts. By the end of 2014, these PE firms’ dry powder reached a little over US\$1.2tn of which US\$452bn was for buyouts.

For those PE firms that are expected to sell their portfolio companies, they will do so because “they have been sitting on these assets for a long time and it’s time to harvest the returns,” says an Asia-Pacific-based director of M&A. Bain & Co. also said the average holding period for portfolio companies has extended and will continue to do so given that many of their holdings bought in the boom years have yet to be fully exited. For deals exited in 2014, the median holding period had stretched to a record 5.7 years, increasing from 3.4 in 2008.

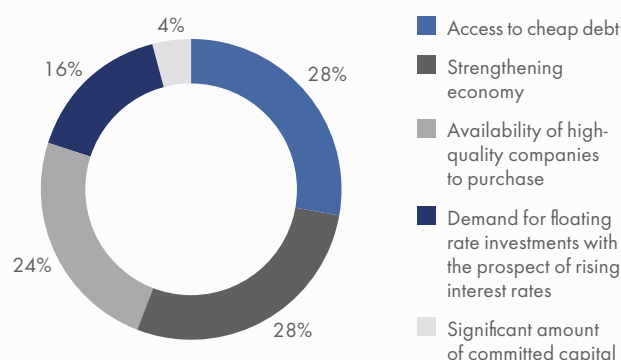
In which regions do you expect to see the greatest and the least availability of buyout financing over the next 12 months? (Select one for each)



Over a third of respondents (36%) say that Latin America will see the greatest availability of buyout financing in the next 12 months. According to recent data from PE research firm Preqin, buyout vehicles were the most significant fund type in terms of funds focused on the region last year. The buyout strategy raised 60% of total capital. The vehicles also gained the biggest average fund size, worth US\$1.1bn in 2014. The largest fund focused on the region was a US\$2.1bn buyout fund called Advent Latin American Fund VI raised by Advent International that focuses on Latin American control buyouts and expansion financings.

While the Latin American region should see increased financing, 68% of respondents believe that Europe will have the least availability of buyout financing over the same time period. One of the reasons, says a Europe-based director of corporate development, “is the lack of bank involvement in offering funding to European companies.” In a 2015 report on the European private markets, data from PE advisory firm Altius Associates showed that European banks comprised 54% of the leveraged loan market at the end of 2013, dipping from 83% in 2011.

### What will be the biggest driver of leveraged buyout financing over the next 12 months?



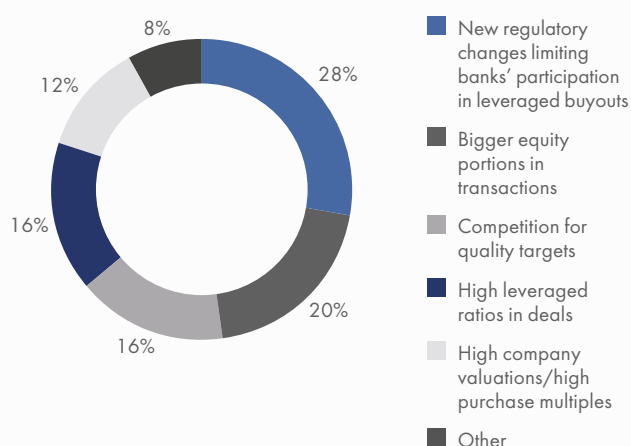
Access to cheap debt and a strengthening economy were cited by respondents, in equal measure, as the top drivers for leveraged buyout financing in the next 12 months.

The access to low-interest rate debt serves a dual purpose. "This is the biggest driver for buyout financing as it allows PE firms to work out strategies that help companies improve performance while earning them high returns," says a Europe-based vice president of finance.

A stronger economy also gives investors the necessary confidence and motivation to make investments. "Economic recovery will drive management to adapt new strategies and add value by improving business performance and earning profits," says a US-based vice president in corporate development. He adds that the risks will also be lower, which means a greater chance for a buyout deal's success.

Almost a fourth of respondents also say that the availability of high-quality companies will mainly drive leveraged buyout financing in the next 12 months. "Investors are attracted to companies with new, innovative and promising products that are seeking financing and are looking to expand and execute their growth strategies," says a US-based strategy director.

### What will be the biggest hindrance to leveraged buyout financing over the next 12 months?



Respondents say that regulations limiting banks' participation in buyout deals will be the biggest hindrance to leveraged buyout issuance over the next 12 months. In 2013, US banking regulators released new guidance on leveraged lending that placed the acceptable leverage level at 6x total debt-to-EBITDA or less, stating that a higher level will raise concerns for companies that are taking on debt in "most industries."

Regulators warned that loans that did not comply with this accepted leverage level will be subjected to added regulatory scrutiny.

Rather than inviting the increased review by authorities, financial institutions "have chosen to stay away by restricting their participation in leveraged buyout deals," says a US-based strategy director. "This puts a damper on PE activity because bank investments are definitely the most convenient source of funding and their inability to participate will negatively impact the level of buyout financing."





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**SECURITY**—Venue's rigorous security offers protection at all levels. Our AT 101 certification and constant testing keeps us ahead of any potential breaches.

**GLOBAL PRESENCE**—Venue boasts a multidimensional global orientation, on-demand translation of documents, and local servers throughout the world.

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**VENUE**



# Private Equity in the room

## Venue® data room: A special report

### Zeta Acquisition Corp. III (Zeta), acquires Kura Oncology, Inc. March 6, 2015

**Target:** Kura Oncology, Inc.  
**Counsel for Target:** Cooley LLP  
**Counsel for Buyer:** Richardson Patel LLP  
**Private Equity Firm for Seller:** ARCH Venture Partners; Ecor1 Capital, LLC; Tavistock Life Sciences; Nextech Invest Ltd.  
**Industry:** Medical: Pharmaceuticals; Drug development

### Paypal acquires CyActive March 5, 2015

**Target:** CyActive Ltd.  
**Private Equity Firm for Seller:** Siemens Venture Capital GmbH; Jerusalem Venture Partners  
**Industry:** Computer services; Computer software; Services (other); IT consulting; Application software products; Software development

### PayPal acquires Paydiant March 2, 2015

**Target:** Paydiant, Inc.  
**Counsel for Target:** Goodwin Procter LLP  
**Counsel for Buyer:** Sidley Austin LLP  
**Private Equity Firm for Seller:** General Catalyst Partners; North Bridge Venture Partners; West Capital Advisors LLC; Stage 1 Ventures, LLC  
**Industry:** Computer software; Internet /ecommerce; Services (other)

### Hewlett-Packard Company acquires Voltage Security, Inc. February 9, 2015

**Target:** Voltage Security  
**Counsel for Buyer:** Skadden Arps Slate Meagher & Flom LLP  
**Private Equity Firm for Seller(s):** Morgenthaler Ventures; Menlo Ventures; Siemens Venture Capital GmbH; Trident Capital, Inc.; Hummer Winblad Venture Partners; Cipio Partners GmbH  
**Industry:** Computer services; Computer software; Data processing; Application software products; Software development

### Blackboard acquires SchoolWires Inc. February 4, 2015

**Target:** SchoolWires Inc.  
**Financial Advisor for Target:** Evercore Partners Inc.  
**Private Equity Firm for Buyer:** Providence Equity Partners LLC  
**Private Equity Firm for Seller:** Kennet Partners Limited  
**Industry:** Computer software; Services (other); Educational & Training Services

### Microsoft Corporation acquires Sunrise Atelier, Inc. February 4, 2015

**Target:** Sunrise Atelier, Inc.  
**Private Equity Firm for Seller:** Balderton Capital (UK) LLP; Lerer Hippeau Ventures; 500 Startups; SV Angel; NextView Ventures; Resolute VC; Slow Ventures and BoxGroup  
**Industry:** Computer software; Application software products; Software development

### Microsoft Corporation acquires Revolution Analytics, Inc. January 23, 2015

**Target:** Revolution Analytics, Inc.  
**Private Equity Firm for Seller(s):** Intel Capital; North Bridge Venture Partners  
**Industry:** Computer software; Application software products; Software development

### Robert Bosch acquires Climatec January 14, 2015

**Target:** Climatec, LLC  
**Financial Advisor for Seller:** William Blair & Company  
**Counsel for Seller:** Kirkland & Ellis LLP  
**Private Equity Firm for Seller:** Pegasus Capital Advisors LP  
**Industry:** Construction; Construction services

### The Riverside Company acquires a stake in Greenphire, Inc. January 13, 2015

**Target:** Greenphire, Inc.  
**Financial Advisor for Target:** AGC Partners  
**Financial Advisor for Buyer:** Deloitte  
**Counsel for Buyer:** Jones Day  
**Private Equity Firm for Buyer:** The Riverside Company  
**Debt Provider (Other) for Buyer:** Ares Capital Corporation  
**Industry:** Computer software; Application software products

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# ABOUT RR DONNELLEY

RR Donnelley is a global provider of integrated communications. The company works collaboratively with more than 60,000 customers worldwide to develop custom communications solutions that help to drive top-line growth, reduce costs, enhance ROI and ensure compliance. Drawing on a range of proprietary and commercially available digital and conventional technologies deployed across four continents, the company employs a suite of leading Internet based capabilities and other resources to provide premedia, printing, logistics and business process outsourcing services to clients in virtually every private and public sector.

## About Venue

Venue is a secure online workspace with a powerful feature-set and an intuitive design that allow you to easily organize, manage, share and track all of your sensitive information. Venue data rooms provide complete control, ensuring that you can manage who has access to your data room, which documents they see, and how they can interact with those documents.

Venue data rooms are backed by RR Donnelley, a \$11.6 billion corporation with more than 500 locations and over 65,000 employees worldwide. RR Donnelley's total revenues are larger than all other virtual data room providers combined. We bring extensive experience to providing integrated communications services.

For more information regarding Venue, RR Donnelley, or this report, please contact us directly.

## RR DONNELLEY AT A GLANCE

\$11.6 billion	2014 net sales
65,000+	Employees
500+	Global locations
Nearly 125	Manufacturing locations
750+	Issued and pending patents
Nearly \$2 billion	Capital investments over the past six years

Daniel Perez | Sr. Marketing Manager, Venue Data Room  
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Venue is the fast-growing virtual data room solution of RR Donnelley, the leader in integrated communications services. Our Venue virtual data room provides a secure online workspace with a powerful feature-set and an intuitive design that allow you to easily organize, manage, share and track all of your sensitive information. A Venue workspace provides complete control, ensuring that you can manage who has access to your data room, which documents they see, and how they can interact with those documents.

We serve hundreds of thousands of Venue users, who are accessing content related to the highest profile deals in the market. With a Venue data room you have access to the RR Donnelley global footprint, where you can leverage our suite of financial services—everything you need from pre-negotiation to post-transaction filing and archiving—anytime, anywhere.



Work faster and more efficiently with Venue's powerful, intuitive features that deliver what you need right now.

**Best-in-class security:** Trust your information to our industry-leading security: AT 101 compliant, redundant, third-party-tested platform, exclusive protection features and maximum precautions for all interactions.

**Mobile:** Venue mobile allows you to manage your documents and users no matter where you are, in a variety of different languages. Whether you are rushing to a meeting—or in the midst of travel—access your Venue data room in a familiar and easy-to-use interface from any IOS device.

**The Venue Executive Suite:** Leverage the enhanced functionality of the intuitive Venue interface to deliver even more control over and access to your multiple Venue data room projects from the executive level dashboard.

**Unmatched room service:** We give you hands-on, start-to-finish service that's unique to the industry. The Venue team delivers local service no matter where you are thanks to in-house staff at hundreds of locations around the globe.

**Google search:** Secure, full-text search, powered by Google.

**User activity reports:** Track exactly who is—or isn't—accessing the files of your data room with instant, real-time reports.

**One-click translations:** Continue to leverage the RR Donnelley global footprint to help you do business anywhere in the world, easily and securely, with our translations services. Our linguists translate documents within a Venue data room in over 140 languages—with a simple click.

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