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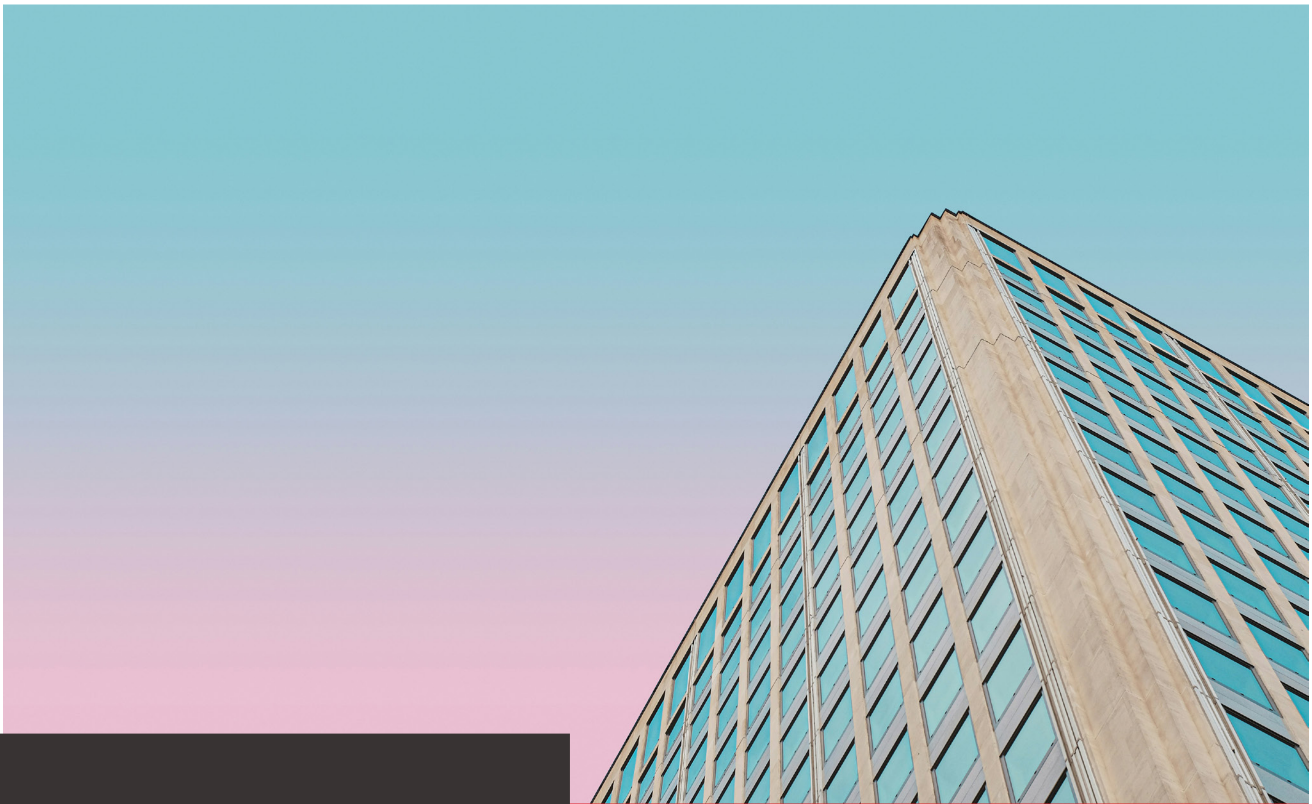
AXIA

Issue 02 / March 2024



Contents

Private Equity Newsletter

SG Analytics' premier private equity monthly newsletter and your window to the latest trends, deals, and strategies reshaping the industry. Each edition of Axia will bring you an exclusive feature article and topical news developments with our experts dissecting critical topics, offering insights and commentary that go beyond the headlines.

Private Equity's Strategic Shift to Infrastructure

In line with the broader fundraising landscape, infrastructure fundraising faced a challenging year in 2023. Nevertheless, there is a resurgence in the interest in infrastructure investments, evident in major asset managers, such as KKR, Blackrock, and Brookfield, showing confidence in this sector. Pivotal factors driving growth in this area encompass an increasing disparity between public funds deployed for infrastructure and the required funds, coupled with a shift in focus to decarbonization, digitization, and deglobalization.

In 2023, the global fundraising activity for infrastructure saw a decline of 35%, dropping from its peak of $172 billion in 2022 to $112 billion, per Infrastructure Investor. However, the value of infrastructure has been reinforced as the demand for long-term, stable, and uncorrelated returns in a volatile, high-interest-rate environment has intensified. This heightened interest is further fueled by a shift towards cleaner energy, the data-intensive requirements of artificial intelligence (AI) and other technologies, as well as the need for robust domestic supply chains. According to Preqin, fundraising activity is expected to nearly double in 2024.

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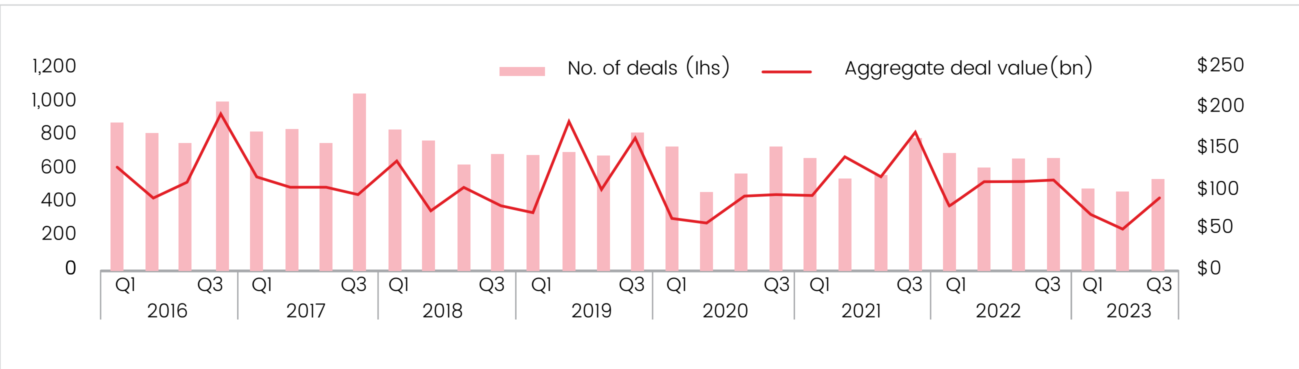
Real asset fund performance has continued to surpass other private market strategies for the fourth consecutive quarter, standing out as the sole strategy to outperform its 10-year average, according to Pitchbook. Infrastructure funds, comprising the majority of real assets, achieved a commendable one-year IRR of 10.7% in 2Q23.

There were some noteworthy deals recently. These include Brookfield securing $28 billion for the largest-ever infrastructure fund, BlackRock's acquisition of Global Infrastructure Partners—a New York-based investment fund—for $12.5 billion, marking its largest acquisition in 15 years, and KKR raising $6.4 billion for the largest Asia Pacific infrastructure fund.

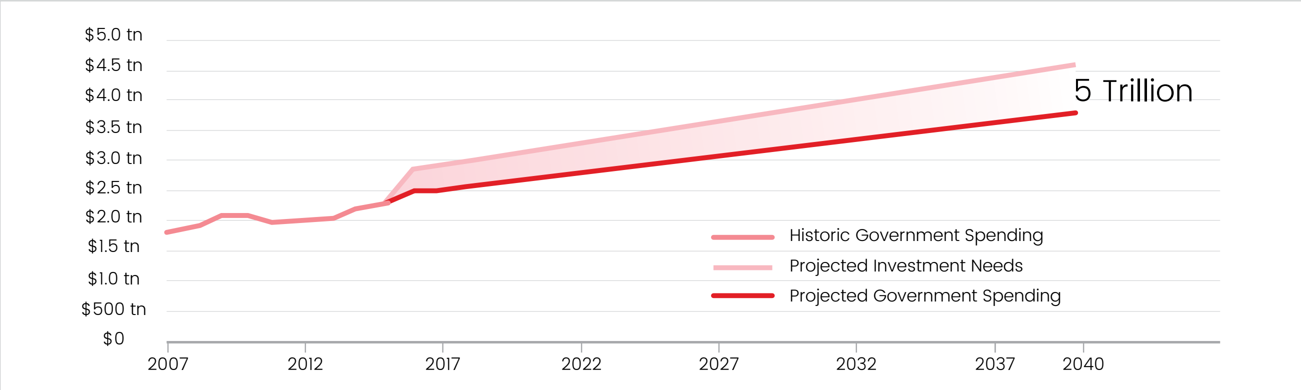
Figure 1: Infrastructure Deal Volume and Value



Source: Preqin, KKR

Modern infrastructure investing extends beyond traditional areas, such as toll roads and water to encompass assets like energy and semiconductor factories. The primary and enduring catalyst for private infrastructure investment is the substantial, unfulfilled global demand for it as its scope broadens. According to the Global Infrastructure Hub, the deficit between government expenditure on infrastructure and the required amount is projected to reach $15 trillion by 2040. Further impetus in the form of legislation, such as the US Inflation Reduction Act and the Chips and Science Act, offering incentives for domestic industries and clean technology, has stimulated investment and heightened the demand for transportation, energy, and waste infrastructure throughout the US.

Figure 2: A Growing Gap Between Government Infrastructure Spending and Society's Needs



Source: KKR

As the trends of decarbonization, digitization, and deglobalization continue to gain momentum, PE's focus on infrastructure is set to become prominent in 2024.

The increasing focus on limiting global warming to 1.5°C above pre-industrial levels by 2050 is amplifying. However, there is a noticeable disparity between existing policies and the necessary actions to meet climate targets. Bloomberg New Energy Finance estimates this gap to be approximately $7 trillion annually until 2050, underscoring the need for private sector intervention.

The widespread use of smartphones and devices, along with advancements in machine learning and AI establish data as the world's fastest-growing commodity. Robust physical infrastructure is essential to support the functioning of digital tools like telecom towers for signal transmission, fiber connections enabling high-speed internet access, and data centers. In the US, the demand for the capacity of servers that a data center can handle is expected to almost double by 2030, according to McKinsey, highlighting the requirement for additional private support.

Rising geopolitical tensions, trade conflicts, and shifts in regulations have significantly disturbed global supply chains. The ongoing US-China trade dispute is a prime example, compelling companies to concentrate on strengthening their domestic supply chains. In a move to further advance this initiative, President Biden issued an executive order in November 2023, underscoring the priority of enhancing resilience in domestic supply chains and introducing measures to achieve this goal. Heading into 2024, infrastructure security emerges as another focal point. Recent reports of Chinese hackers exploiting vulnerabilities in routers, firewalls, and VPNs to target water, transportation, energy, and communication systems nationwide highlight the insufficient funds available for upgrading infrastructure equipment.

In conclusion, although 2023 posed challenges for infrastructure fundraising, a resurgence is underscored by major asset managers expressing confidence in the sector. The value of infrastructure remains robust, evident in stable and strong fund returns. The growth drivers include a widening gap between needs and public funds available and a focus shift toward decarbonization, digitization, and deglobalization. As PE shifts focus on infrastructure in 2024, addressing climate targets, fortifying digital infrastructure, and strengthening supply chaitns become imperative, necessitating the pivotal role of private sector intervention and support.

Monthly News and Analysis

Citigroup Successfully Tests Tokenization for PE Funds

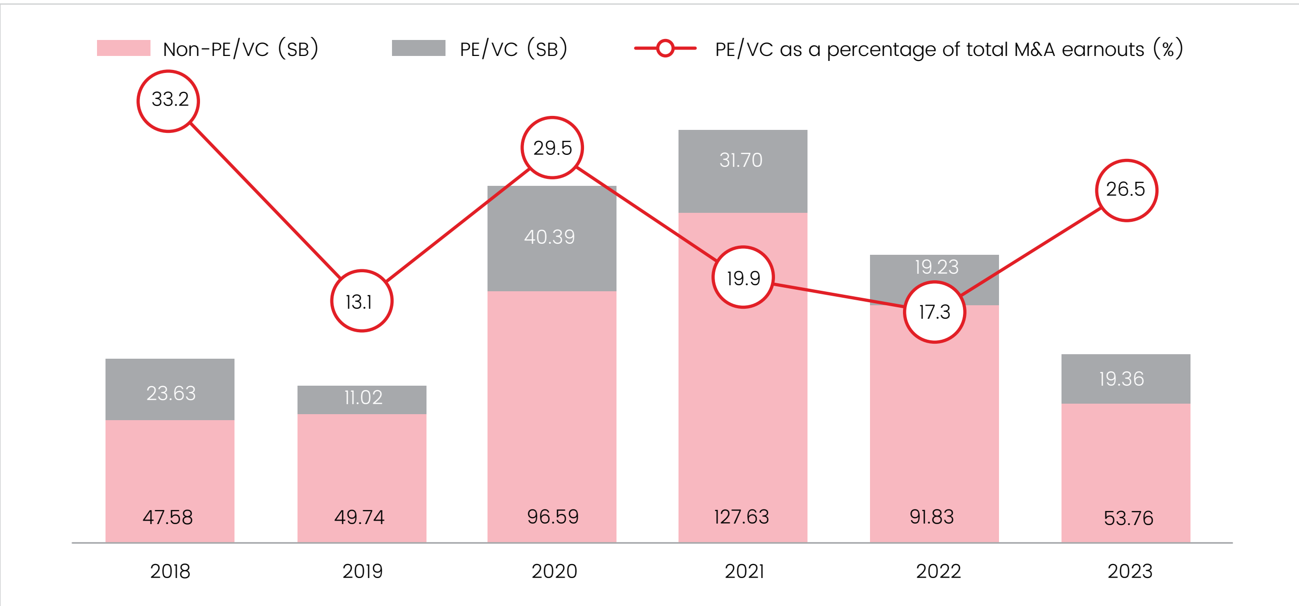
Citigroup, in partnership with Wellington Management, a Pennsylvania-based investment management firm, and WisdomTree, a New York-based fund management firm, has successfully tested the tokenization of a PE fund on a blockchain network. The collaborative effort conducted a proof of concept on the subnet of Utah-based Avalanche, Spruce which is specifically designed for major financial institutions seeking to leverage public blockchain infrastructure.

Tokenization involves converting an asset's ownership into digital tokens, facilitating easy trading and management through blockchain technology. In the context of a PE fund, each token represents a share in the fund, enabling investors to have fractional ownership through predefined smart contracts. Utilizing blockchain reduces capital requirements, ensures transparency, and automates compliance processes, leading to decreased administrative costs. This approach also introduces liquidity to an inherently illiquid market. However, security concerns and a lack of standardized rules accompany this method. In a similar move, Singaporean exchange, ADDX, tokenized allocations from PE funds managed by Partners Group in 2021. These initiatives align with the broader industry trends, highlighting an increased focus on asset tokenization. Examples like Fintech company Securitize's acquisition of Onramp Invest and JPMorgan's facilitation of collateral transactions between BlackRock and Barclays through decentralized applications underscore the evolving landscape.

PE Deals with Earnout Provisions Surge in 2023

In 2023, PE exits with earnout provisions constituted 5.8% of the total PE exit deal value, marking the highest percentage since 2020, as reported by S&P Global. Notably, earnouts were a factor in approximately one out of every three private market deals in 2023. This number is a significant increase from the traditional one-out-of-five ratio observed in previous years, according to SRS Acquiom Inc.

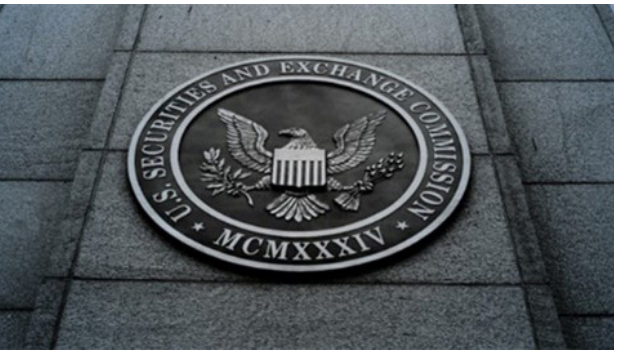
Figure 3: M&A Earnout Deals with PE/VC Involvement



Source: S&P Global

Dechert LLC's survey revealed that 92% of 100 PE executives stated their firms utilized earnouts to successfully conclude deals, emphasizing the prevalent adoption of this strategy. GPs are increasingly turning to earnouts as the primary tool to finalize deals amid uncertain macroeconomic conditions. Characterized by volatility and lack of momentum, the exit market remained subdued for the majority of 2023, resulting in prolonged holding periods. As of mid-November 2023, the typical holding period for PE portfolio companies extended to 7.1 years, an increase from the 5.7-year average observed in 2022, per Preqin. The conflicting demands on GPs add complexity to this situation, as they face pressure from LPs to exit investments promptly and return capital, while being inclined to delay exits in a climate of low valuations, aiming to ultimately optimize returns. To navigate this challenging scenario, there has been a growing trend in the adoption of earnout provisions, serving as a strategic tool to bridge the valuation gap.

SEC Private Funds Rule Challenged



The National Association of Private Fund Managers, et. al. vs. SEC, a case contesting the SEC's private fund advisers' rule, which was finalized in August 2023, presented its arguments in the US 5th Circuit Court of Appeals recently. These regulations mandate private funds to issue quarterly reports on fees and performance, conduct annual audits, disclose specific fee structures, and prohibit preferential treatment to certain investors concerning redemptions and portfolio exposure.

The plaintiff asserted that the SEC exceeded its statutory authority by implementing extensive new expense and disclosure requirements, estimating an annual industry cost of $5.4 billion. Furthermore, the rule diminishes the fundamental distinctions between public and private funds. Contrastingly, the SEC contended that Congress conferred the authority upon the agency to establish such a rule through the Dodd-Frank Act. The commission asserted that the rule is crucial because private fund investments frequently lack transparency, and advisers do not consistently provide information essential for investors to comprehend the fees and expenses they incur, the risks they undertake, and the performance they achieve in return. The Alternative Investment Management Association, American Investment Council, Loan Syndications and Trading Association, Managed Funds Association, and National Venture Capital Association are the additional petitioners involved in this case. The parties have sought a decision from the Court by May 31, 2024, but the ultimate timing will be determined by the Panel.

Carlyle to Launch PE Product for Wealth Channels

Carlyle is gearing up to launch a PE-focused offering tailored for wealth channels in the upcoming quarters, as indicated by the firm's 4Q23 results and reported by Private Equity International. Since its inception, the firm has attracted $50 billion in inflows from wealth channels, while making progress towards the launch of the new offering.

While PE has traditionally been the domain of institutional investors, the role of high-net-worth individuals (HNI) is gaining prominence and is expected to shape the landscape in 2024. According to a report by Boston Consulting Group, by 2025, HNIs are projected to hold 2.4 times more assets in PE funds than in 2020, reaching a global total of $1.2 trillion. This sizable and untapped market has become increasingly appealing to asset managers seeking sustained double-digit growth, even in a maturing industry. For instance, out of KKR's $553 billion in AUM, $75 billion is from private wealth channels. The firm anticipates that these channels will make even more substantial contributions starting in 2026 and is strategically aiming to raise 50% of its new capital from private wealth. Furthermore, HNIs are showing a growing interest in these channels as they seek diversification options and superior returns. A January 2023 survey by Goldman Sachs of a cohort of families with net worths over $1 billion revealed an increase in PE holdings from 24% of their portfolio assets in 2021 to 26% in 2023. Additionally, 41% of these families planned to further augment their PE holdings over the next 12 months of the survey.

PE's Focus on Public Affairs Agencies

Clarion Capital Partners, a New York-based PE firm, acquired Narrative Strategies, a Washington-based strategic communications agency. With a focus on addressing challenges in reputation and public affairs, Narrative Strategies plans to expand its service offerings and enter new markets by utilizing Clarion's extensive industry expertise and longstanding partnerships.

In recent times, there has been a surge of PE firms acquiring stakes in public affairs agencies that possess the capability to understand and shape an evolving and intricate political environment. Notably, KKR acquired a 30% stake in communications consultancy FGS Global, Precision Strategies sold a minority stake to Abry Partners, and Finco secured a 49% stake in Whyte Corporate Affairs. Clarion's investment serves as the latest example, reflecting corporations' anticipation of heightened scrutiny and potential regulation in the industry. Over the past four years, Gary Gensler, the Chairperson of the SEC, has set forth 67 proposed rules, the highest count since Mary Schapiro, who approached nearly 100 proposals during her tenure following the global financial crisis. A pivotal development in this regulatory landscape is the passage of the Private Fund Rule in August 2023. This rule, aimed at tightening controls, involves tackling the lack of transparency, conflicts of interest, and the absence of robust governance mechanisms concerning client disclosure, consent, and oversight in the industry.

Deals Flash

Bain-led Consortium Acquires Accolade

Accolade Wines, an Australian-based wine company, has been acquired by a group of investors led by Bain Capital. The consortium, named Australian Wine Holdco, comprises Intermediate Capital Group, Capital Four, Sona Asset Management, and Samuel Terry Asset Management. This acquisition is part of a restructuring plan aimed at addressing the company's unsustainable financial situation, exacerbated by challenges such as adapting to Chinese tariffs and a consumer shift towards more premium wine brands. The consortium will assume control of Accolade Wines from the former sponsor, The Carlyle Group, through a strategic exchange of debt for company shares. This transaction serves as a crucial alleviation for Accolade Wines, addressing imminent maturities, including a $98 million revolving credit facility in June 2024 and around $380 million of term loans scheduled for next year, according to Bloomberg. Established in 1836, Accolade, Australia's second-largest wine producer, boasts a portfolio of over 50 brands, including the renowned Hardys. The company's commitment to quality is evident through the receipt of 8,846 awards in the past decade.

H&F and Valeas Invest in Baker Tilly

Hellman and Friedman, with Valeas Capital Partners, two private equity firms based in California, acquired a majority stake in Baker Tilly, an advisory CPA firm located in Chicago. This transaction represents the largest private equity investment in the US CPA profession. Baker Tilly, recognized as the 10th largest firm in the country by IPA, has significantly increased its workforce by expanding both nationally and internationally. The investment provides the firm with additional capital and resources, enabling accelerated growth through investments in talent, technology, and strategic acquisitions aimed at enhancing client services. As part of this deal, the firm will undergo a restructuring, resulting in two entities: Baker Tilly Advisory Group, offering business advisory, tax, and other services, and Baker Tilly US, a licensed CPA firm, focusing on attest services.

Actis Acquires Assets from Patel Infrastructure

Actis, a London-based PE firm, acquired a portfolio of operational Indian hybrid annuity model road assets from Patel Infrastructure Limited, an India-based infrastructure development company. The Economic Times reports that this $180 million transaction is geared toward expanding Actis' presence in Asia, specifically in long-life infrastructure, while contributing to enhanced road safety in India. These assets, granted by the National Highways Authority of India, are particularly appealing due to their availability-based fixed revenues and features such as interest rate indexation. With the vast and appealing opportunities in India, Actis aims to make the roads sector a cornerstone of its investment strategy in the country. This agreement follows Actis' prior experience in the sector, having acquired a portfolio of operational toll roads in India in 2022.

TowerBrook to Buy CBTS From Altafiber

TowerBrook Capital Partners, a New York-based investment management and PE firm, is acquiring Cincinnati Bell Technology Solutions (CBTS), a Cincinnati-based IT service management company and a subsidiary of Altafiber, a Cincinnati-based telecommunications company. The deal is expected to be completed in the second half of 2024, according to S&P Global. The acquisition is anticipated to open new markets for CBTS and broaden its array of products and services. Currently, CBTS boasts extensive technical proficiency, offering a comprehensive suite of flexible technology solutions to over 3,000 clients spanning various industries across the US and Canada. With a workforce comprising over 2,400 employees and 2,000 contractors actively engaged, CBTS has demonstrated resilience, reflected in its annual revenue exceeding $1.3 billion, as of February 2024.

Carlyle to Sell Jagex to CVC and Haveli

The Carlyle Group has agreed to sell Jagex, a UK-based video games developer, to CVC Capital Partners, a Luxembourg-based PE firm, and Haveli Investments, a Texas-based PE firm for $1.1 billion. With a workforce of approximately 700 employees, Jagex has a distinguished 20+ year history in live service gaming. In January 2024, Jagex Games Studio recorded a robust mobile app revenue of $2 million, with approximately $900,000 attributed to iOS apps and the remainder to Android apps, according to Sensor Tower. Jagex Games Studio maintains a comprehensive portfolio of 18 apps, comprising 12 iOS applications and 6 Android applications. RuneScape, its flagship game, has fostered a vibrant community comprising 2.4 million active subscribers and one million free-to-play users, accumulating over 300 million lifetime RuneScape accounts. Jagex, boasting a robust EBITDA margin of $60 million, anticipates a 10% increase in the coming year, according to Reuters.

Varsity sells Angels of Care to Nautic

Varsity Healthcare Partners, a Connecticut-based PE firm, sold Angels of Care, a Texas-based pediatric home health agency, to Nautic Partners, a Rhode Island-based PE firm. Varsity acquired Angels of Care in 2019, leading to a significant expansion of the company's geographic service area, spanning from two states to seven. This strategic move positioned Angels of Care as one of the largest providers of pediatric home healthcare in the US. The company's current footprint of 28 branches spans across includes Texas, Colorado, North Carolina, South Carolina, Florida, Arizona, and Pennsylvania. With a workforce exceeding 2,000, Angels of Care employs private-duty nurses, skilled nurses, physical therapists, speech therapists, attendants, and specialists. Its pivotal role is underscored by accolades such as winning the Best Home Health in Texas awards by the Killeen Daily Herald in 2015 and being recognized in the Best of Texoma in 2018 and 2020.

Oak Hill Sells Safe Fleet to Clarience

Oak Hill Capital, a New York-based PE firm, sold Safe Fleet Holdings, a Missouri-based transport services company, to Clarience Technologies, a Michigan-based transport technology company. This transaction involved financial sponsorship from Genstar Capital and MidCap Financial Investment BDC. Oak Hill acquired Safe Fleet in 2018 for $715 million. Safe Fleet specializes in providing safety solutions for fleet vehicles, offering integrated smart solutions that create a cohesive safety platform for various fleets. With an extensive portfolio featuring market-leading brands, 1,900 employees, 16 manufacturing locations, and 13 service centers, Safe Fleet remains dedicated to innovation, thus delivering intelligent safety solutions and reinforcing its prominent position in the market. Clarience Technologies stands to benefit significantly from this acquisition, gaining access to essential technologies, specialized expertise, and a robust portfolio of complementary safety products.

General Atlantic and Stone Point to Acquire HireRight

General Atlantic and Stone Point Capital, a Connecticut-based PE firm, will acquire HireRight, a Tennessee-based background screening company. Following this acquisition, HireRight, which went public in October 2021, will be delisted. Currently, General Atlantic and Stone Point collectively own approximately 75% of the company's outstanding common stock shares. As per the terms of the agreement, they will purchase all remaining outstanding shares at $14.35 per share in cash, resulting in a total enterprise value of around $1.65 billion. This acquisition price reflects a premium of about 47% over HireRight's 30-day volume-weighted average price per share as of November 17, 2023. With a global reach and 37,000 customers, HireRight has become a trusted partner for background verification. In 2022 alone, the company screened over 24 million job applicants, employees, and contractors for its clients, processing over 107 million screens.

Clarion Capital Acquires Narrative Strategies

Clarion Capital Partners, a New York-based PE firm, acquired Narrative Strategies, a Washington-based strategic communications agency. Narrative Strategies specializes in addressing reputation and public affairs challenges by thoroughly assessing the landscape, devising creative solutions, and implementing effective campaigns. Leveraging Clarion's extensive industry expertise and long-term partnerships, Narrative aims to broaden its service offerings, strengthen existing capabilities, and venture into new markets. Established in 2019, Narrative Strategies boasts a workforce of 65 employees and serves a diverse clientele, including Fortune 500 companies, trade associations, nonprofits, and law firms. In 2023, the agency solidified its pivotal role in a dynamic and intricate media and political landscape by executing 34 scalable public affairs campaigns, securing 26 awards, and garnering 933 media hits for its clients. Notably, Narrative received prestigious accolades at the Reed Awards, Pollie Awards, and Telly Awards.

CapStreet Acquires Analytic Stress

CapStreet Group, a Houston-based PE firm, acquired Analytic Stress Relieving (ASR), a Louisiana-based heat treatment services company. Established in 1979, ASR delivers heat treatment solutions across the industrial sector, with a specific emphasis on petrochemicals, refining, power, and other industrial markets. Operating from 14 locations throughout North America, ASR utilizes its expansive fleet of heat treatment consoles and in-depth expertise to ensure the delivery of secure and high-quality heat treatment services. ASR's robust business model reflected a revenue of $82 million in 2023. Boasting a team of over 350 technicians, each with an average of 15 years of experience, the company has successfully served major players in prominent industries. These industries include industrial fabrication, petroleum refining, chemical processing, power generation, LNG, and pulp and paper.

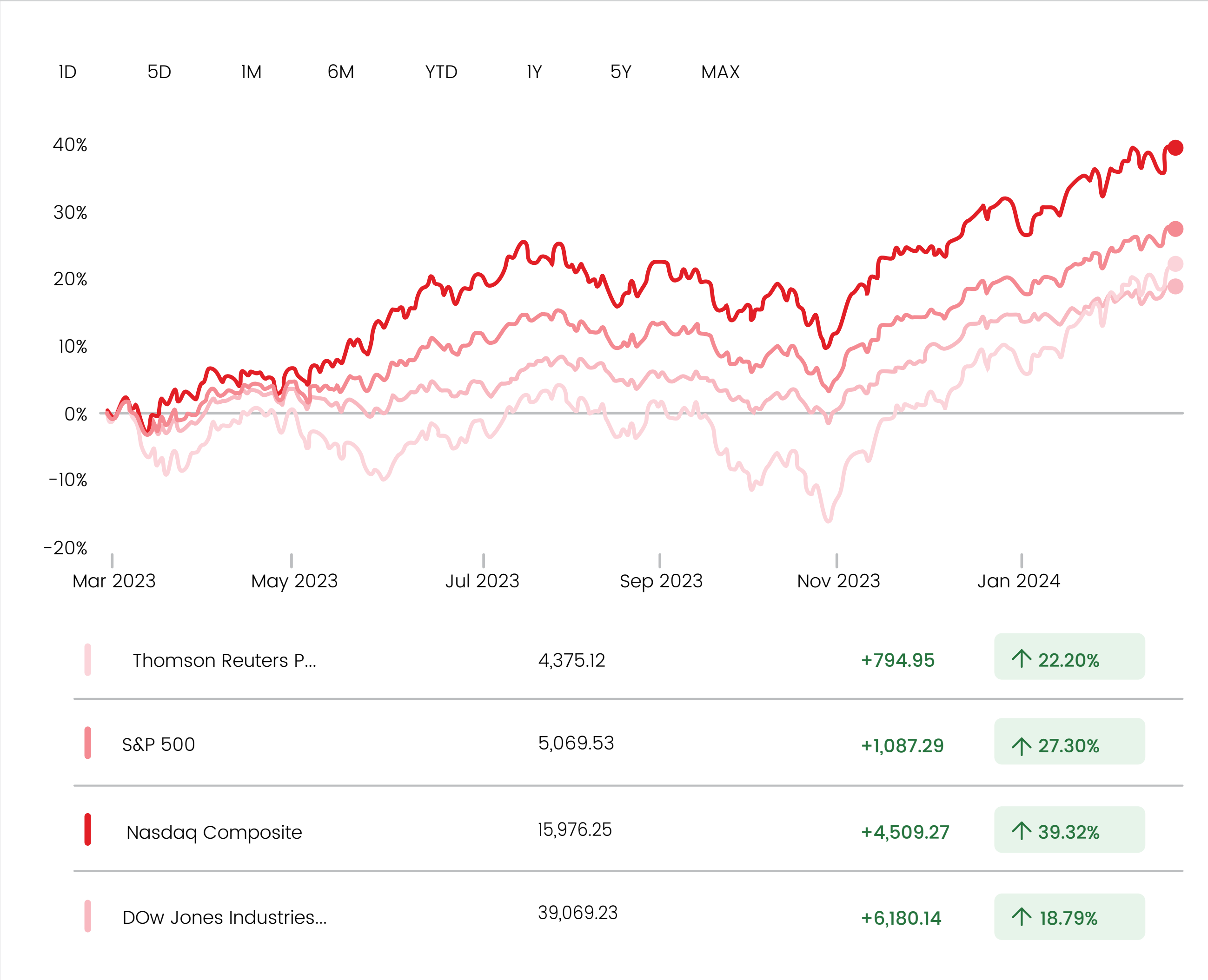
Upcoming Events

PE Wire Emerging Managers Summit 2024	13 March, 2024	Convene 101 Park Avenue, New York
M&A Conference at Wharton San Francisco	20-21 March, 2024	Wharton School-University-Pa, San Francisco, USA
Real Estate Private Equity Summit	26 March, 2024	New York City

TRENDS AND STATS

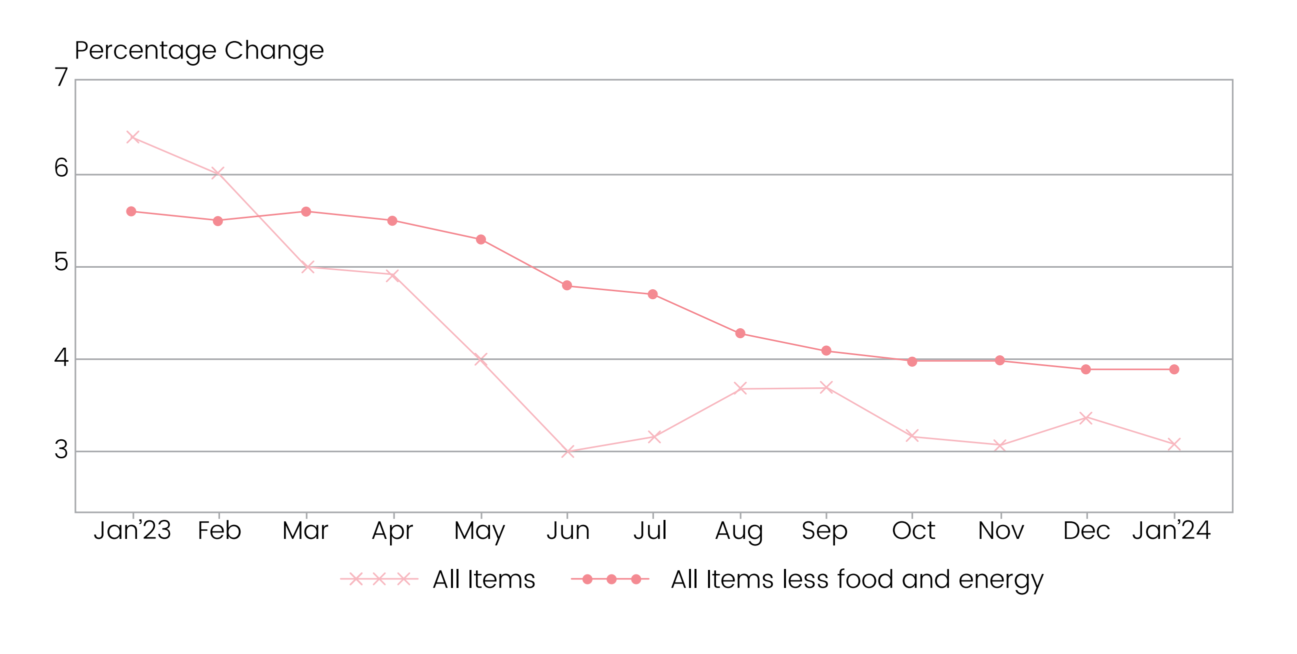
Data as of 27th February 2024

Thomson Reuters Private Equity Buyout Index



Index	Month-over-Month	YTD
Consumer Price Index	0.3%	3.1%
Producer Price Index	0.3%	0.9%

Figure 4: 12-month Percentage Change in CPI for all Urban Consumers, Not Seasonally Adjusted



Source: US Bureau of Labor Statistics

Figure 5: 12-month Percentage Changes in Selected PPI Final Demand Price Indexes, Not Seasonally Adjusted

Source: US Bureau of Labor Statistics

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