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McKenzie.**

GLOBAL PRIVATE EQUITY
Insights 2018

Only for the brave.

Discovering opportunities in an uncertain world.



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Foreword



David Allen
Chair, Global Private Equity

WELCOME to our 2018 edition of Global Private Equity Insights, a look at some of the trends in the global private equity market and how industry leaders are finding opportunities in an uncertain world. Our goal is to share perspectives from a diverse set of market participants in order to help you navigate through rough waters and stay on top of market developments.

Since our last edition, the global political and economic environment has become increasingly uncertain. With Brexit a reality that still lacks clarity around implementation, an unpredictable US political administration and political upheaval threatening country after country, investors around the world are facing unprecedented levels of risk and uncertainty. Turbulent times have, however, not stopped the highly competitive race for quality investment opportunities and a quest to find and deliver value to investors.

In the face of all of the current disruption, private equity managers are finding ways to distinguish themselves – from investing in new strategies to maintaining strict discipline around the qualities and principles that have made them leaders in their fields.

In the following pages, you will hear from managers, bankers and advisors about their strategies for charting a successful course in the midst of difficult currents.

New horizons

One approach to discovering opportunity is setting sail for new territory. On **page 32**, Iain Ware and Chris Cozzone of Bain Capital Double Impact talk about combining social good with environmental and financial bottom lines. Similarly, Gary Cleaver of Core Equity talks about keeping an eye on the long-term horizon in order to create and realize value over a longer holding period on **page 30**. New strategies are not the only answer and on **page 4** Matthias Boyer Chamard from Bain Capital and Mark Bulanda from Emerson talk about taking a new look at previously overlooked assets in a piece on carve-outs.

Expanded footprints

Some firms have spent their time and energy on making inroads in new regions. Johan Bygge of EQT and Jimmy Phua of Canada Pension Plan Investment Board speak on **pages 22 and 24** about adapting their strategies and building teams in Asia.

“Turbulent times have not stopped the highly competitive race for quality investment opportunities.”

Digging deep

While others look to new ideas and frontiers, some managers prefer to stick to their sweet spot at home. Jaime McKenzie of US firm Monomoy Capital Partners tells us on **page 42** about sticking to a disciplined focus on operations and Ramón Betolaza of Black Toro Capital talks about Spain’s resurgence on **page 46** and how to unlock previously unrealized value. On **pages 54 and 64**, Daniel Meuthen of AUCTUS Capital Partners and Juan Pablo Gomez of Altra Investments highlight how a focus on truly partnering with a business and its founders to create tailored solutions pays dividends over the long term.

Changing landscapes

On **page 68**, Nabeel Laher of Old Mutual Alternative Investments opines on how the investment landscape in Africa is changing and how investors with a local perspective or connection are stepping up to capitalize on those opportunities. On **pages 50 and 60**, Wilson Rosa of Advent International and Ettore Biagioni of the Alothon Group provide two perspectives on maintaining a steady course through Brazil’s tempestuous investment cycles.

Finally, we get a crow’s nest view from investment bankers in New York, London and Hong Kong starting on **page 10**. Three leading voices provide a look into the future of bitcoin and cryptocurrencies on **page 74** and two experts in W&I insurance address the changing landscape of risk mitigation on **page 80**.

We hope that whatever cross-currents the near future brings, that the wind fills your sails and you find success in your deal-making in 2018 and beyond.

Enjoy the report,

David Allen

“ We go through our own full reverse due diligence process so we are able to answer all of the questions the potential buyers may ask.”

Emerson and Bain Capital

Carving-out value

Both leaders in their fields, **Mark Bulanda** and **Matthias Boyer Chamard** talk about the opportunities and challenges of corporate carve-outs. Mark provides corporate strategic insight into the importance of carve-out transactions and Matthias discusses the evolving role of private equity in carve-outs as they become increasingly attractive investment opportunities.



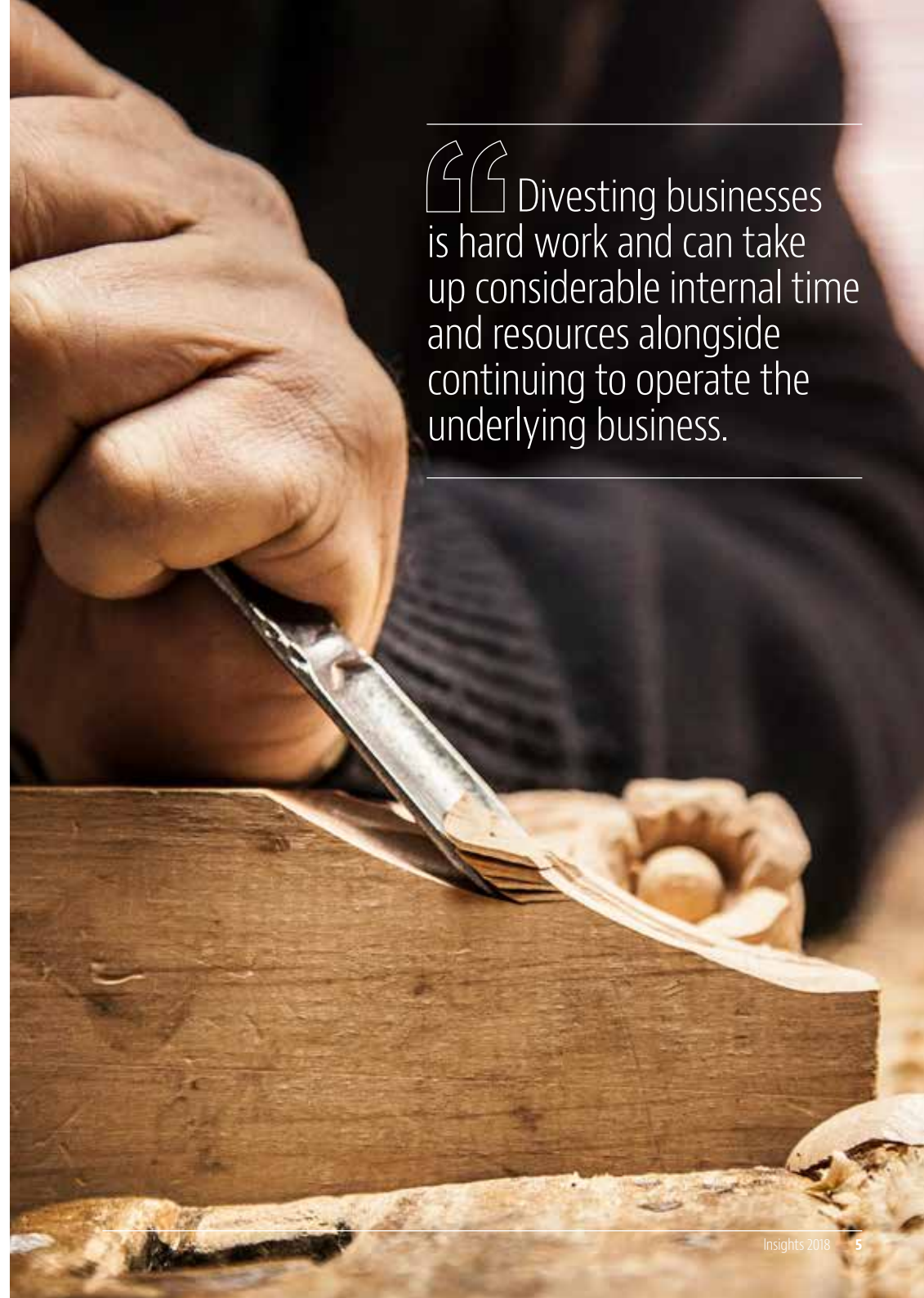
Mark Bulanda
Senior Vice President
Emerson Electric Co.

Mark Bulanda is an Emerson senior vice president who oversees the company's acquisition planning and portfolio management activities. He was appointed to this position in April 2016 and works with Emerson's businesses to identify potential acquisition candidates. In 2016, he was named to Emerson's Office of the Chief Executive, which helps develop and guide the company's global business strategies.



Matthias Boyer Chamard
Managing Director
Bain Capital Private Equity

Matthias Chamard joined Bain Capital Private Equity in 2011. Matthias is a managing director and focuses on retail, restaurants and building materials. He also has coverage responsibility for the French market.



“ Divesting businesses is hard work and can take up considerable internal time and resources alongside continuing to operate the underlying business.”

**MARK BULANDA
EMERSON****You've been involved in a number of high-profile carve-outs in recent years, as both buyer and seller of assets, can you tell us a bit about your strategy and the motivation for those transactions?**

Active portfolio management is incredibly important for the success of a corporation and Emerson continually reviews its portfolio and the fit our businesses have with our long-term corporate strategy. Recently we divested Network Power and CT/LS businesses, for USD 4 billion and USD 1.2 billion each. We found there were structural changes in the end markets that made it difficult for those businesses to achieve our long term growth, margin and asset performance targets. They are great businesses and will thrive, but with different expectations from their next owners.

What were some of the unique challenges and opportunities – and what do you do to ensure successful completion? What does “successful” look like for you?

Divesting businesses is hard work and can take up considerable internal time and resources alongside continuing to operate the underlying business. In order to have successful completions, within Emerson we go through our own full reverse due diligence process so we are able to answer all of the questions the potential buyers may ask and provide a very robust

data room. As such, there was a ton of work for us to get done as we were pursuing a spin/sale of Network Power, a sale of CT/LS and the purchase of Pentair's Valves & Controls business – all at the same time. It was a very busy time for a lot of people at Emerson.

What do you see as the key elements to realizing the full potential value of a carve-out transaction?

On a sell-side carve-out, we focus on value but you may not always have the luxury of divesting at the right time in the cycle. We also like to place our divestitures with financial sponsors or strategics that value the people. On the buy-side, we definitely look at how the acquisition fits into our overall strategy as one might expect. Many times, they are assets that we know well and that have developed relationships with the corporate parent for some time to be in a position to acquire the company when they decide to sell.

The interest from financial buyers in these types of assets is increasing – are there any differences when dealing with a strategic buyer v. a financial buyer? How do you select the right buyer?

We tend to favor selling to a strategic buyer as they typically are able to create a broader solution with their business and are focused on longer term success. However, there are many financial buyers that are doing the same thing, so at some level it does come down to value. At the end of the day, if the many dimensions of value are equal, we look at the buyer's culture, motivation to do the deal and how they treat the people to make the decision on who to sell to.

**There is a lot of market attention on carve-outs/break ups right now. How do you view the market for these types of transactions going forward (12-24 months) for both sellers and buyers?**

I think the activity will remain very healthy (and highly competitive). There is a lot of money that can be put to work and my view is that there is additional pressure, whether it is by activists, the board or management, to push portfolio reviews.

If you look at Emerson, we have historically remixed our portfolio and will continue to do so. The US tax reform has made it easier for companies to look at their long held, low tax basis companies in a new light as they won't take as big of a tax hit as before, so this is another motivator. We look forward to seeing what carve-outs are made available and being very proactive in reaching out to other companies to inquire about the assets we are interested in to perhaps provide some additional motivation to sell if they are on the fence.

How do you see PE's role in carve-outs evolving?

PEs will always be competitive and will figure out how to work all the different levers to be competitive against a strategic buyer. Generally, strategic buyers have more synergies which allow us to provide a higher headline price, but the PEs go into a perhaps, different toolkit, to figure out the financing side and then take a different approach on their valuation of the acquired business to be competitive.



**MATTHIAS BOYER CHAMMARD
BAIN CAPITAL PRIVATE EQUITY****The interest from financial buyers in carve-out assets appears to be increasing. Why do you think that is?**

History shows that carve-outs can be more lucrative than conventional buy-outs, evidenced by the fact that some carve-outs have achieved returns of 4x, 5x and even 6x. Corporate groups tend to focus on their core business, so a non-core division may not incentivize its management to optimize the running of the business as a financial sponsor might. Private equity incentivizes management in a big way to focus and deliver results through sweet equity packages, enabling real value creation. For example:

- **Optimizing pricing:** We often find that corporates fail to fully leverage the pricing power of their non-core divisions. In small niche businesses, it can simply be an oversight. But generally, there is also an incentive issue. Significant changes to pricing policies can be very painful for divisional management to implement: it generates a lot of attention from longstanding customers and often results in a trade-off between market share and bottom line. Our experience has been that the PE incentive structure is far superior to corporate's to enable such long term value arbitrages. Equally, head-office doesn't necessarily want that kind of noise from a non-core division. When private equity does a carve-out, it will leverage the business' pricing power to properly reflect the true value delivered, boosting returns and enabling better customer service.
- **Cost efficiency:** Non-core divisions often are not cost efficient. Cost reduction can be painful – creating redundancies, closing non-profitable sites and such. A non-core division has little incentive to do that.
- **Prioritization of CAPEX:** Private equity firms think of CAPEX differently from big corporates. There is often a misconception that PE doesn't invest in CAPEX – but in fact we do. You often find that non-core businesses have been starved of CAPEX investment because CAPEX is prioritized for the core business. In a carve-out there is often a surge of CAPEX in the first few years post buy-out.

With sensible CAPEX investment, we can often deliver operational improvements that enhance returns over the longer term.

The deal perimeter of many carve-out deals is often less of a bright line than a standard buy-out deal. How do you de-risk or optimize that in your valuation and financing structure?

Carve-out sellers are becoming more sophisticated about how they position stand-alone costs. Historically, there were a lot of carve-out deals where the stand-alone costs were presented in the target's financials as the historic management charge levied by head-office. That management charge does not necessarily correlate to the actual stand-alone costs and that creates arbitrage. Carve-out sellers are increasingly commissioning independent surveys on the actual costs to minimize that kind of value leakage.

In many carve-out deals the transaction structure is more nuanced than a simple share sale of a stand-alone box by way of a share purchase agreement (SPA). Often there will not be clean separation from the parent and there may be some ongoing commercial relationship, which may be short-term under a transitional services agreement (TSA) or constitute a longer term relationship – e.g., sharing a factory or relying on the parent for certain supply or output. SPAs are sweet-spots for PE buyers. We know where value is won and lost on those. In a carve-out, there is an asymmetry of information when it comes to negotiating the commercial agreements; we are in a much weaker position compared to the corporate seller. That is not something you can completely de-risk but we are likely to be much more conservative around these types of agreements than we would be in an SPA. This is where we see the greatest value leakage.

What do you see as the key differences between the way strategic sellers and financial sponsor buyers approach carve-out deals?

The parent has committed to sell a business because it is non-core. It is often less focused on squeezing every cent

of value out of the deal but instead on the separation itself and the way the sale will be seen by analysts who scrutinize the head-office. Conversely, we are incredibly focused on value creation and implementation.

What do you see as some of the traps for sponsors on carve-outs?

We know much less about the business being sold than the corporate parent. When there is asymmetry of information there is always risk. When we buy assets from other financial sponsors, due diligence materials tend to be good and there are rarely surprises. In carve-outs, the quality of due diligence information may not be as good. That isn't because corporates don't know how to present information but, instead, that information regarding the stand-alone sale perimeter has often not been populated prior to the sale process. Information often has to be created at the time of the sale and this carries risk. On top of this, carve-outs are now trading at a premium to conventional buy-out assets so, if something goes wrong, it can be much more damaging.

Any favorite carve-out experiences you want to share with us?

WorldPay was a good deal for us. That is an example of carving out an asset that did not exist before. It was a division of a division that was fully embedded in the parent that many people didn't think could be made to be stand-alone. We had to disentangle it from the parent and give it a stand-alone identity. It was incredibly complex and the price reflected our ability to do the deal.

How do you see PE's role in carve-outs evolving?

There are more and more carve-outs happening and deals are getting cleaner. The sell-side advisors are helping corporates be more sophisticated about minimizing the stand-alone costs of the target and explaining the upsides. Sellers are also beginning to explore carve-outs that are deeply embedded in the parent. It remains an area of the market that presents the biggest opportunity for value creation but also the biggest risk for value erosion.

“History shows that carve-outs can be more lucrative than conventional buy-outs.”

What do the bankers think?

In an atmosphere of heightened uncertainty over diverse issues ranging from tax changes to trade relations and Brexit, investors are still finding attractive opportunities around the globe. Competition may be fierce but well-prepared investors with conviction around their investment thesis are getting deals done. **Simona Maellare from UBS** in London, **Joe Conte from Lazard** in New York and **Eric Chen of Standard Chartered Bank** in Hong Kong offer their views in the following pages on trends in the global market and each region.



Joseph Conte
Managing Director
Lazard Middle Market

Joseph Conte is a managing director and member of the Business Services & Education group at Lazard Middle Market. He has more than 20 years of experience in mergers and acquisitions, private equity, venture capital and other corporate finance transactions. Joseph has broad experience in media, marketing and information services; industrial services; environmental services; professional services; and broad-based business process outsourcing.



Simona Maellare
Global Co-Head of Financial Sponsors
UBS

Simona is global co-head of financial sponsors at UBS. Simona has 23 years of experience in leverage finance and financial sponsors coverage. Prior to joining UBS she worked at JPM, DLJ and Bank of America Merrill Lynch.



Eric Chen
Managing Director, M&A
Standard Chartered Bank

Eric joined Standard Chartered Bank (Hong Kong) Limited's Mergers & Acquisitions team in 2009 and offers strategic financial advisory services to the bank's regional and multinational clients. As a senior member of the M&A team, Eric focuses on cross-border transaction situations across various sectors involving Greater China (China, Hong Kong, and Taiwan). Eric has over 18 years of experience spanning Asia and the US in both investment banking and private equity roles. He previously worked at firms including Morgan Stanley, American Capital Strategies, JPMorgan Partners and Merrill Lynch & Co.

What do the bankers think? Europe

2017 was a strong year for European buy-outs. How is 2018 looking and what are your predictions for the rest of the year?

We have a strong sense of optimism about the year ahead. 2018 got off to a good start in Q1 with a number of high-profile transactions such as the completion of the Unilever Spreads/KKR deal and the AkzoNobel special chemicals process. The debt and equity capital markets are in good shape and PE has a lot of dry powder.

Where are you seeing sponsors transacting in Europe? What is the sponsor appetite for the UK right now?

We are seeing a lot of activity in France, Germany, Italy, Spain and the Nordics. From a sector perspective, we are seeing most activity in healthcare, business services, chemicals and technology.

The UK is now more complicated due to Brexit. There is still a lot of uncertainty for UK-based businesses, which results in investment committees scrutinizing them more carefully than pan-European opportunities. UK-focused funds have to be more pragmatic. Some purely domestic UK businesses will be insulated from Brexit risk, but it's a complex area and there is real caution for UK businesses exposed to consumer spending, such as retail. That said, we aren't seeing any Brexit discount being applied to deals. Everything is going for healthy multiples. There is good competition for UK assets and, for the right UK deal, sponsors will work hard to win it.

Are you seeing more Asian bidders in processes?

Increased protectionism in the US has pushed more Asian interest towards Europe. Chinese buyers are interesting because they have the potential to pay full value for assets. When we are dealing with Chinese bidders we always ask ourselves: can the bidder move in the context of the auction and do they have accessible funds? For these reasons, we try to talk to them very early on. Not just to the M&A team but to the leadership. Protectionism is not just a US phenomenon and there is increased talk of regulation and control of foreign ownership of strategic assets in a number of European countries as well.

As the market becomes more competitive, are you seeing any changes in the way processes are being run by UBS or other bankers?

Because of the level of competition in the market we are doing two things and these aren't necessarily new, but we think about them more systematically. The first is pre-marketing / 'Gold Card' meetings. We spend more time prior to launching a process talking to potential bidders and figuring out who is serious – sponsors and strategics as well as the wild cards. When the process starts we know who to invite and this allows us to narrow the field to credible buyers. Second, we front-load the process as much as possible. We might do a 1a/1b round where we make available parts of the vendor due diligence and even offer management presentations. This is all designed to ensure that bids are credible and substantiated.



Simona Maellare
Global Co-Head of Financial Sponsors
UBS

This also creates room for pre-emption. We are seeing very motivated buyers willing to pay a premium to break a process and the use of exploding bids is becoming more common.

An increasing number of our sponsor clients have been considering SPAC exits. Is this a trend we should expect to see more of?

We are seeing more special purpose acquisition company (SPAC) exits, for example in Italy. I wouldn't really describe this as a trend but more a function of current market conditions. For a SPAC to be successful, three things need to come together: good equity markets, a good reputable individual or team and a differentiated investment strategy. The alignment of these things is difficult. Will we see more SPACs? Yes. Are they here to stay? No.

A number of people are drawing parallels between now and 2007. What's your view on that comparison?

We are reaching a peak although we are still below the 2007 peak. I believe that we are better prepared today and, as a result, we are not in the same danger zone. We learned from the last cycle and if there were another crisis now it would be less severe. Business plans are more conservative than they were back then. Also, when sponsors invest, they incorporate contraction of exit multiples into their model and recognize that if multiples drop they need to work the business harder. Regulation has also forced banks to have higher capital controls and leverage levels are more constrained. The leverage conditions are also incredibly borrower friendly which gives a business greater freedom to restructure in a more benign and less pressured environment.

What do the bankers think? US



Joseph Conte
Managing Director
Lazard Middle Market

Joseph Conte of Lazard talks about activity, trends and outlook in the US Middle Market. While it's a challenging and competitive market, there are opportunities for those willing to specialize and be disciplined.

What's your view on the market overall right now and where are the opportunities coming from?

It's probably the most vibrant, active mid-cap market I've ever seen in terms of valuation multiples and it has been for some time. If you had asked me a few years ago, I would have said that it was hard to see how it could get more competitive, but it has. Competition is particularly fierce for high-quality assets – assets with high revenue visibility, strong cash flow and good growth. That's driving high prices and strong competition. Given pricing levels and where we are in the economic cycle, there is an even greater focus on quality and stability.

What does this mean for the competitive process?

PE firms are being required to, and are, spending more time and money (accounting, legal and consulting) on diligence earlier in the process.

There's no room for an opportunistic approach – GPs have to be strategic in where they spend their time. Firms are focused on being disciplined about what they chase, but when they decide to chase something, they are pulling out all the stops and playing to win. Because they are being asked to spend more time and money upfront, the go/no-go decision happens earlier. Early buy-in from the broader partnership is critical, as broken deal costs (legal, accounting and consulting due diligence fees) can get quite large and increased competition means the chances of winning are lower. Firms have become hyper focused on whether they can win before going to the next step. So they're asking, "Do I have an angle?" They know that pricing is going to be high so that angle on how to add value and drive returns is important.

What are those angles and how do they try to find them?

It could be insights into new markets or products, key executive or industry relationships that they can leverage to drive the top line, or even just prior experience in the industry can make a meaningful difference. PE firms have established sector-focused teams that call on bankers, executives, business owners and other PE owned companies in their area of expertise. This helps firms to know the competitive landscape, develop relationships with operating executives and identify the best performers in the sector. That knowledge enables them to evaluate a target more effectively and develop an investment thesis on an asset more quickly. In a highly competitive process, building conviction around assets and honing

in on the investment case sooner helps to use precious resources more effectively as well as move quickly and decisively. That more specialized approach is here to stay – I don't see people going back to a more generalist, opportunistic philosophy.

What assets are generating the most interest?

In my sector, platform investments with significant add-on opportunities are particularly valuable. Businesses in highly fragmented spaces, with the infrastructure, management depth and a history of growth through acquisition will continue to generate significant interest, especially in fragmented industries. It enables investors to offset the high price paid for the platform through acquisitions of smaller add-ons at lower multiples, driving the effective multiple down. Other companies that are generating significant interest are tech-enabled service companies. By leveraging technology, these firms can scale more quickly, drive the cost of providing services down and create stickiness with their customers.

What kind of impact are the recent tax changes in the US having on PE?

In general, the new tax law should be positive for PE owned companies. Lower tax rates coupled with other changes in tax laws should enable firms to pay down debt more quickly, even with the new limitations on deductibility of interest expense. For GPs, the new tax changes have created a few complexities around investment holding periods and the tax treatment of carried interest that will likely factor in to fund managers' decisions as they think about exits. In recent years, especially given market dynamics, a GP might consider an exit after two years. Under the new tax laws I think we're going to see fewer exits before the new three year holding period has run.

Are there new competitors in the market or new strategies emerging?

Family offices are much more active and many have started to resemble traditional PE funds in the way they approach investing and behave in a process. I think we will continue to see more competition from these groups. They have more robust teams and are more willing to participate in a competitive process.

We are also seeing corporates trying to become more competitive with PE firms by offering management and stockholders equity incentives and "roll over/

reinvestment" opportunities that look more like traditional PE structures. I think that's in recognition of the fact that as a corporate you can compete on valuation, but where you can lose in the end is the second bite at the apple. Depending on the company, the team and the ownership structure, that "second bite," can be perceived as highly valuable and we've seen corporate M&A teams become more creative in their approach to compete with PE.

Do activity levels and debt markets worry you at all?

For mid-market deals, there is an abundance of debt capital available at both attractive interest rates and levels of debt – some of the most attractive I've ever seen. With interest rates at or near historic lows, I don't think modest increases in rate will slow this M&A market down.

What do the bankers think? Asia

How has the China M&A market developed and what are the key trends?

Looking at the past five years, we have witnessed significant growth and deepening of the M&A market in China. Between 2013 and 2017, volumes for overall China M&A more than doubled to nearly USD 460 billion while the China outbound M&A component rose by more than 140% to USD 120 billion. Over this time, Chinese acquirers made a significant strategic push to buy international businesses and, in so doing, a general perception developed that Chinese bidders were frequently willing to offer high valuations for targets in Europe, the US and Australia, as examples. Given this perceived willingness to pay and the appetite to acquire, Chinese bidders absolutely had to be invited to international auctions looking to maximize price and competitive tension.

In relation to private equity portfolio exits, the significant increase in China outbound M&A provides an interesting additional category of potential buyers. As such, it is vital for private equity funds to cultivate an understanding of potential Chinese buyer interest in portfolio companies identified for exit as Chinese acquirers have consistently demonstrated

a strategic interest in acquiring overseas brands and technologies to serve the growing Chinese market and domestic demand. Another observation regarding Chinese acquirers was that the international targets did not always have to be in the same line of business. This trend towards seemingly opportunistic dealmaking further increases the importance of in-depth, on-the-ground knowledge of the Chinese buyer universe.

In the context of bringing Chinese buyers into international auctions, regional transaction advisors can help provide insights and guidance about the relative credibility and quality of potential buyers where private equity funds might not have an in-country presence in China. An added benefit from working with advisors with financing capabilities is the ability to assess the creditworthiness of buyers and their respective track records / abilities to complete deals. It's worth noting that despite the recent overall increase in experience levels for international M&A in China, not all companies and/



Eric Chen
Managing Director, M&A
Standard Chartered Bank

or personnel have had the same levels of transaction exposure. In many situations, we have seen the benefits of experienced advisors helping to bridge the communication process and aligning expectations between counterparties especially when many of these market participants do not always behave conventionally in terms of international auctions.



When you act on a sell-side mandate, how important is the involvement of private equity bidders?

There is no “one-size-fits-all” approach as it depends on the characteristics of the target company and industry. However, since private equity funds have raised, and are deploying, considerable amounts of capital, and also because private equity investors also offer potentially attractive value propositions to the seller and/or management teams, they should always be considered as potential buyers. Generally, our advice with respect to running sell-side mandates is to keep an open mind and approach as broad a universe of potential buyers as possible to achieve the fullest price discovery possible, assuming that the business will not be unduly impacted.

To illustrate the merits of keeping a diversified potential buyer universe, in 2017, China stepped up offshore capital controls and regulatory scrutiny of proposed outbound M&A transactions. In certain instances, some Chinese buyers scrambled to secure offshore funds to complete deals that were already under contract, which contributed to an increase in postponed or pulled deals. In the aftermath of an increase in such deal challenges, overseas sellers have raised their scrutiny of the credibility of potential Chinese buyers as the prospect of achieving higher values needs to be balanced with maximizing execution and timing certainty which is now also reflected in transaction documentation.

So, as you can see, while a Chinese strategic bidder might have been able to offer higher values depending on the strategy and fit, a private equity buyer during 2017 would probably have offered greater transaction certainty and ability to secure the requisite financing which had suddenly become challenging for certain Chinese strategic buyers. Ultimately, we generally recommend that sellers maintain a balance of strategic and financial bidder interest for as long as possible to maximize competitive tension and to ensure successful completion of transactions.

The US and Europe have been some of the biggest recipients of China outbound investments.

Do you see any changes in outbound M&A volume based on recent events?

The regulatory and political environment, particularly in the US, is likely to mean that investment flows from China will continue into Europe with a decline for those into the US. Given the current state of Sino-US relations, the heightened deal uncertainty has made the prospects for certain US investments a non-starter. For others, the implications for acquisitions of large, global businesses with a significant US presence, also mean that there is an increased need to consider transaction structures that allow for the potential carve-out of US operations such that buyers are not dependent on US regulatory approvals to close.

Do you see the current market conditions resulting in an increase in the number of take privates?

There are quite a number of reasons and motivations for take privates but they generally center on the perception that a listed company is significantly undervalued by the public markets and does not fully reflect the fundamental value of the business. The degree of such undervaluation is such that the buyer is willing to pay a premium to the current trading price and able to retain room to realize future upside.

In the current economic environment where we are starting to see moderating growth and rising interest rates, I believe that we are likely to see a rise in situations supporting a take private. In fact, I also believe that the number of potential buying opportunities in the region, as well as the number of potential take private transactions, should be increasing. For private equity investors, Hong Kong take privates are attractive opportunities to secure control or joint control of attractive businesses in Greater China. Also, given the fact that there have historically been proportionately more buyers

rather than sellers in Greater China, my view is that the potential increase in buying opportunities for private equity investors should represent an exciting trend. Reasons for the increased opportunities to acquire businesses include: a focus on reducing indebtedness through asset sales, especially non-core asset disposals; ownership succession issues; and owners deciding to attempt turning around businesses outside the view of public shareholders.

Our client experience on take-private situations confirms the benefits of working with advisors able to advise on transaction tactics, including subsequent stakeholder management issues, while also providing integrated financing solutions to cover the cash confirmation requirements of Hong Kong regulators. Among other benefits, a key one is the easier ability to ensure confidentiality from dealing with fewer parties.

Are there any differences between Chinese and global private equity funds and how they approach investments?

At the risk of over-generalizing, I would say that Chinese private equity funds have an advantage of being focused primarily on the China market and being able to take a strictly local view of the growth prospects and valuation for a business. For global funds, one can imagine the challenges of comparing the relative risk-reward for certain investments in China to that of other global opportunities. As an example, the currently elevated trading levels for many A-share listed securities frequently serve as valuation reference points for sellers in the region or as valuation reference points for future exits by competing bidders despite the fact that the A-share listing process is not straightforward and has a long waiting list.

On the whole, I remain convinced that these are exciting times for all private equity investors in this region given the opportunity to acquire and support the growth of businesses in a still rapidly growing region.

EQT

Boots on the ground in Asia

EQT established its Hong Kong presence in 2005. Following more than 10 years of regional success and with an eye toward continued growth, the Stockholm-headquartered global investment firm set its sights squarely on expanding in Asia. **Johan Bygge**, Chair of EQT Asia Pacific, moved to Hong Kong to help the firm do exactly that. He shares his experiences and expectations.



Johan Bygge joined EQT in 2011, though his affiliation with the firm began in 2007 when he was with Investor AB and joined the board of EQT Partners. Johan has an industrial background with many corporates, including Ericsson, Electrolux and Husqvarna.

Johan Bygge
Chair of EQT Asia Pacific
EQT

“It’s all about talent in the end – get the right people and work together.”

EQT is a distinguished name in European private equity markets with steady growth in North America as well. You have been on the ground in Asia for a while – what prompted this renewed focus?

If you just look at the map and demographics, you realize that to truly be one of the world’s leading firms, you need to have a solid platform in Asia Pacific. Until recently, EQT has been involved primarily in fundraising and mid-market investment activities here. Now is definitely the time to build up EQT’s platform in this part of the world and so we started to put more boots on the ground in the form of an infrastructure team. EQT has three pillars, or investment strategies: Private Capital, Real Assets and Credit. We already have some of these strategies in Asia and will eventually firmly establish them all here.

Which sectors does EQT find most appealing?

EQT invests broadly, but healthcare is one of the sectors we like most. We also like the same types of companies EQT's funds invest in elsewhere because we can apply the same knowhow, including advanced service-oriented companies and technology. We have a passion for building good companies and are able to bring EQT's industrial heritage to help develop their unrealized potential.

How do you go about helping companies realize that potential?

First, you have to forge a common agenda and this is particularly important when talking to families and entrepreneurs that have built fantastic companies themselves. They want to see their "baby" continue to develop. These types of investors like EQT's tradition of building companies, which goes back to the mid-1800s through the Wallenbergs, along with our access to a network of industrial companies like Electrolux and Husqvarna. It's not all about financials; it's about building strong companies and allowing them to grow and develop.

We've studied what happens to EQT companies even five years after we exit and they continue to outperform their markets. Whether they exited by IPO or strategic sale, wherever they ended up, they continue to do well. That's the best feedback – that we actually do what we're supposed to be doing.

Secondly, real money is put at stake. When EQT acquires a company, we aren't just acting on behalf of the investors, but we're all investing together – the company's management team, board and the EQT team members themselves along with those investors. A lot of people in EQT have carried interest and co-invest as well. It's a real commitment. As the American expression goes, we have "skin in the game."

How does EQT begin the building process?

We think seriously about the future of the portfolio company and what the buyer will be buying from EQT. Our brand says it's safe to buy a company from EQT. Then we bring the right talent whether internal or from our network of industry advisors around

the world. That network includes CEOs, industry specialists and even former politicians who have the experience to run the best known firms anywhere.

Can you tell us about the exit trends you are seeing within Asia?

There are three exit routes: IPO, selling to a financial buyer or selling to a strategic buyer. There is a lot of interest from strategic buyers for EQT's companies in Asia. IPOs in Asia have been a bit more challenging than in other parts of the world given capital rules and other complexities. I hope those elements move in the right direction because stock exchanges need private equity and private equity needs stock exchanges. We do sometimes pursue dual-track exits, which generate competition and pressure in the system as we don't want the exit process to take too long. It takes focus and attention, and we owe it to the company to be as efficient as possible.

What are some of the keys to operating successfully in Asia?

It all starts with talent. First of all, we believe that you should be identifying industrial advisors as well as a local EQT team and so we have very few expatriates in this region. You need a good team that really knows how to do business here. There are a few people like me who help connect the region into the global EQT organization as a 'cultural standard bearer' for the firm's ethos and values. We have a set of values around transparency, industry and entrepreneurship – it's when we merge local talent with that culture and passion for building companies that we really succeed.

We'll also have to be willing to learn and to be patient – it may take a while because Asia is huge. Just look out the window. It's huge. Where do you start and how do you become a major player in this part of the world? One example of learning is that, in most parts of the world, EQT takes control positions in companies. We do that here as well but sometimes having a local partner for operational or legal reasons is a better solution and we'll need to adjust to that. It will take time and we'll need to forge our own way but it's all about talent in the end – get the right people and work together.

“Today, you pursue responsible investments and sustainability because doing so allows you to build better companies.”

EQT is known for its early commitment to responsible investing. What does this look like in practice?

Responsible investment and sustainability have reached a new phase in maturity. Early on it was a few enthusiasts waving the flag and some rules to comply with – a bit of a "tick-the-box" exercise. Today, you pursue responsible investments and sustainability because doing so allows you to build better companies. In supporting EQT's portfolio companies, we train the board members and supply tools and contacts so they can develop roadmaps to sustainability. When you get to the exit phase, buyers expect it. It will become harder and harder to exit a company without a well-defined roadmap for these issues in place. These are no longer "tick-the-box" undertakings but part of the business and it's an area where we invest a lot of time.

Did you find that sustainability and corporate responsibility were newer concepts in Asia?

It certainly started later here than in other parts of the world, but today these are very hot issues globally and usually high on the agenda everywhere. Not a day goes by that you don't read about plastic in the ocean, air pollution and other issues. And corruption is being clamped down on. There is still a lot to do on matters like child labor and other issues, but there is progress. We are getting there because people realize that companies built responsibly and sustainably have better futures.

Canada Pension Plan Investment Board (CPPIB)

The lure of Asia

CPPIB, the Canadian state owned pension fund sponsor, invests in a wide range of public markets and private assets around the world with a eye on the long-term horizon. **Jimmy Phua**, Head of Real Estate Investments – Asia, talks about the region's opportunities and challenges and provides insight into CPPIB's strategy and outlook.

What drew you to the CPPIB?

Firstly, CPPIB manages the surplus cash of Canada Pension Plan, which receives contributions from 20 million Canadians. The certainty of long-term capital and the fact that CPPIB is a professionally managed organization is a very powerful combination: it means that one can focus on investments without worrying about first raising capital. Secondly, the CPPIB culture, which is reflective of the Canadian culture, places great value on people and diversity, and rewards performance and contribution. My team is a good example of the diversity of talent: we have a group of 19 people from 10 nationalities with different skillsets speaking multiple languages working closely together. It has a flat structure that encourages

collaboration and regular communication. Thirdly, when I first joined CPPIB in 2008, it was just starting to invest in Asia so I was given the opportunity to "start from scratch" and map out CPPIB's investment strategy for Asia. With long-term capital backing me, I could focus on the plan and execution.

What is your strategy in Asia?

As a long-term investor, we have a strong preference for investing directly through joint ventures or club deals. This gives us greater discretion in constructing our portfolio, whether in the selection of countries or sector, or in entry or exit. We want our team to learn and gain experience in the various markets in which we invest, so this flexibility is important to us.



“Asia is still investing significantly in infrastructure which will open up new locations and create new demand. This presents opportunities in every sector in the real estate market.”

We take a partnership approach. We participate at board level and underwrite on a deal-by-deal basis but leave the operation to our partners, so selecting the right partner is key. Our ideal partner is a local partner who is best in class at what they do, who has “skin in the game” and who is able and willing to grow the business in the long-term. We devote a substantial amount of time and resources to relationship management to understand our partners and their strategies. A good example is the Goodman Group. We first partnered with Goodman in China in 2009 and the relationship has since flourished to cover investments in Hong Kong, Australia, the UK and the US.

We are flexible in our investment style. For example, we have privatized two REITs, made forward purchases, and invested in completed buildings as well as undertaken numerous ground-up developments. This flexibility means we can invest in what makes sense for the relevant market at the relevant time and deploy capital in such a way so as to yield the best risk-adjusted return.

What are the biggest opportunities and challenges in the region?

In terms of opportunities, it is quite evident that Asia is growing and is achieving a higher rate of growth than the global average. China, India, Japan and South East Asia are rising in prosperity. As a result, a new generation of middle class has emerged that demands quality goods (including real estate). Also, Asia is still investing significantly in infrastructure which will open up new locations and create new

demand. This presents opportunities in every sector in the real estate market. With a market of that size and growing, there will be regular new investment opportunities for us. The Belt and Road initiative by China will also present longer term opportunities.

On the other hand, there are many challenges: Asia is not just one block. It is a kaleidoscope of markets with different cultures and languages and at different stages of maturity. We need to have a good understanding of the nuances to navigate the complexities. In many Asian markets, there is a lack of quality products for investment as a lot of real estate is held by family owners or REITs on a long-term basis and are seldom transacted. Finally, there is a shortage of partners in emerging markets who understand institutional capital, who view risk the same way we do and who have corporate governance standards that we are comfortable with. Finding well-aligned partners is a major challenge.

How do you see the region evolving over the next 3-5 years and what does it mean for CPPIB?

In the last couple of years, we have seen a lot of capital pour into real estate and into Asia in particular. This was driven by the low interest environment, the search for better yields and the opportunities in Asia in general. As Asia continues to mature, more local institutions will also participate in the real estate investment market and there will be steeper competition everywhere in Asia.

There is disruption in the marketplace caused by various technological advances and this is just the beginning. More disruption is expected. This affects how people



Jimmy Phua
Managing Director
Head of Real Estate Investments – Asia
(Hong Kong Office)

invest in real estate and how real estate is designed and built. As a result, we need to stay abreast of market developments and also need to be able to distinguish between what is “noise” and what are real and secular trends so as not to make the wrong investment. The most prominent example is a shopping mall. One question we ask ourselves is “How will the nature of shopping change in the years to come?” Another good example is logistics. How will disruption in the distribution chain impact the design, location and operations of logistics warehouses?

Can you tell us about a recent deal you have worked on?

We recently partnered with Alpha Investment Partners Limited and Keppel Data Centres Holdings Pte. Ltd. for an initial allocation of up to USD350 million alongside the Alpha Data Centre Fund. This is our first investment in data centers and so we are very excited about it. The demand for data centers is expected to be strong in Asia as more technology becomes an integral part of our daily lives, both personal and corporate. At this moment, this is a very fragmented market that is on the verge of take-off. It represents a real trend, and a secular trend that long-term investors want to invest in. Our partners, who are both members of the Keppel Group, not only possess the requisite expertise to build and manage data centers but also have strong blue chip shareholder backing. By investing alongside the Alpha Data Centre Fund, we are able to gain exposure and experience in this sector and develop a portfolio of data centers in the Asia Pacific region.

“There is disruption in the market place caused by various technological advances and this is just the beginning.”

Jimmy is responsible for CPP Investment Board's real estate in Asia. He has over 20 years real estate experience in Asia having worked out of Singapore, South Korea and currently based in Hong Kong. Prior to joining CPPIB in 2008, Jimmy worked with several leading real estate companies including ING Real Estate. He was responsible for setting up ING Real Estate's business in South Korea.

Jimmy holds a First Class Honors in Bachelor of Science (Estate Management) from the National University of Singapore and a Masters in International Management from the Royal Melbourne Institute of Technology.



“ Our model is about more than just playing a cycle.”

Core Equity Holdings

Playing the long game

On the heels of completing the largest first-time fundraise in history at USD 1.2 billion, Core Equity Holdings is putting its unique investment thesis into action.

“ We have a greater ability to time our exits than traditional PE investors, so we won't be forced into an exit at the wrong time. ”

You have now done your first deal! Tell us about that.

IdVerde is the European leader of green space creation and maintenance. There's no big change of strategy here and IdVerde's management team will continue to focus on its long-term objective of becoming the Pan-European leader in the green space creation and maintenance market. We think there is a compelling opportunity to consolidate this market and to grow into new geographies, so you can expect to see inorganic and organic growth that will build a pan-European champion.

This partnership is very much aligned with our strategy of providing long-term capital to ambitious management teams, enabling them to actively grow their business, both organically and through acquisitions. The management team is reinvested in the company, so our interests are highly correlated.

How is your strategy different from traditional buy-out firms?

We believe the traditional private equity model – the GP-LP structure, five-year investment period, five-year harvesting period – is a 40 year-old model that in some cases no longer works. There are structural

pressures to hold companies for ever shorter periods of time. That means they may be missing opportunities to create value. It also changes the mindset and incentives for management teams, who would prefer more stable ownership rather than being passed between private equity firms at three-year intervals.

To address this, our first fund has a 15-year life structure with two one-year extensions and we're planning to hold each asset for at least 10 years – double the conventional period of most buyout funds. We aim to invest in a small number of platform companies that are leaders in their respective markets and with substantial opportunities to generate value over long periods of time.

Having a longer investment horizon opens up a slightly different private equity play book. We can support long-term industry roll-ups in fragmented sectors and companies that need support in building the foundations of a high-performance organization. Carving out non-core operations that will need time and operational expertise to become stand-alone companies also fits our model.

Gary joined Core Equity Holdings in 2016. He has over 18 years of experience in senior transactional and operational finance roles including CFO and CAO of Ideal Standard International, a private equity backed sanitaryware company, from 2007 to 2016.



Gary Cleaver
Partner & COO
Core Equity Holdings

A number of other buy-out groups pursue longer holding strategies through strategic opportunity and similar funds. Are you going head-to-head with those funds?

Many of the longer term funds target lower returns, more akin to infrastructure funds, and that's not our model. Our model doesn't detract from returns but actually frees us up to focus on building companies and creating value in ways which take seven to ten years, rather than planning the exit only a year or two after we've taken the reins.

The traditional PE liquidity horizon of 3-5 years is well understood by key stakeholders. What potential challenges does a longer holding period raise for stakeholders?

We didn't struggle to raise the first fund, which according to Prequin was the largest inaugural fund at the time (2017). Although the initial fundraising was EUR 1 billion, we plan to ask for additional capital commitments when investments so warrant. That requires a group of like-minded LPs that will understand the strategy and be willing to sit round a table and agree. Naturally, they also need to be willing to lock up capital for longer, so it fits the endowment investor more comfortably.





“ We’re definitely on the right side of a major global trend.”

Bain Capital Double Impact

Making an impact

Bain Capital launched its Double Impact fund, which made its first two investments in 2017, with the double mission of delivering both competitive financial returns and meaningful, measurable social and environmental good. **Iain Ware** and **Chris Cozzone** talk about how they go about marrying a focus on positive social impact with the generation of industry-leading returns.



Iain Ware
Principal
Bain Capital Double Impact

Iain joined Bain Capital Double Impact in 2018. Previously, he was a member of the Bain Capital Private Equity European team in the Technology, Media & Telecommunications and Business Services verticals, where he focused on investments in software and financial technology, as well as industrial services. Prior to joining Bain Capital, Iain worked in private equity for 3i.



Chris Cozzone
Senior Vice President
Bain Capital Double Impact

Chris joined Bain Capital's Global Private Equity team in London in 2011 and transferred to the Double Impact team in 2016. Previously, Chris was a consultant in Bain & Company's Dubai and San Francisco offices, a private equity investor with Cinven in Europe and a consultant for the Africa Transport unit at the World Bank. Chris is also involved in seed stage impact investing.

Bain Capital Double Impact partners with companies that can create positive social impact. How do you define that?

Our mandate is fairly broad, but we're focusing our efforts on three key themes:

1. **Health & Wellness:** including healthcare, where we're prioritizing opportunities that lower the cost of delivery while improving quality (e.g. in the home care and behavioural care spaces), and consumer-orientated assets that support mega trends such as Americans eating healthier food from more sustainable sources.
2. **Sustainability:** businesses that contribute to the reduction of emissions, waste or pollution and minimize human usage of scarce resources. Our key focus is on environmental services (including waste remediation and recycling), testing for environmental and food businesses, asset-light energy efficiency services and sustainable agriculture and aquaculture supply chains.
3. **Community Building:** supporting companies that expand economic opportunity in distressed communities and for underserved groups. This could include mission-oriented or traditional businesses that are addressing local employment challenges, as well as companies that provide education and training to bridge the skills and achievement gaps.

“ Good things happen to businesses which consider all their stakeholders.”

What is your investment strategy?

From a fund perspective, we are a typical USD 390 million middle market fund. We follow the Bain Capital approach of active partnership with management teams, so we prefer majority ownership and/or significant governance. Our sweet spot is LBOs with a USD 30-40 million equity check but we have the potential to do minority growth equity investments as well.

We are primarily focused on North America for now but could consider a broader global strategy down the road.

Is “impact investing” its own asset class?

We don't see impact investing as its own asset class, we see it as an investment style – a different way to think about sourcing and portfolio management. We aim to be compared to other lower middle market firms and achieve top quartile returns.

Is this an investment style that you see becoming more prominent in PE?

Yes. We're seeing a fundamental change in the way people do business in general. There's a demographic shift underway with younger generations becoming more aware about potential pitfalls of businesses that seek profit at all costs to stakeholders and the environment. These generations now represent a growing share of consumers and business leaders or decision-makers who take into account the bigger picture.

LPs in particular are increasingly focused on making sure their investments are responsible and add value in social and environmental dimensions. This comes in part from a willingness to reduce business risk over their long term investment period but also from a need to align with their key stakeholders' values: the employees whose pension dollars are being invested or the university administrators, teachers and alumni whose endowments are being managed.

There has been a natural evolution in the PE market, with even more “traditional” funds focusing on becoming more responsible in evaluating potential significant ESG issues. We're hoping to take the next step: not just avoiding ESG problems, but proving that proactively focusing on positive social impact can go hand-in-hand with attractive private equity type returns. This is PE 2.0. We're definitely on the right side of a major global trend and in 10 years' time we expect most PE firms to be much more impact-oriented.

How does the investment process differ when investing for a social impact fund?

Our core business diligence is really not very different. We both come from Bain Capital's large-cap fund and we're very much focused on bringing a Bain Capital-type diligence approach to Double Impact. It is highly analytical, deep diligence and people-intensive with a lot of in-house resources. In addition to this, there

is an impact diligence component. For each of our investments, we develop an impact thesis alongside our investment thesis and try to identify quantifiable impact metrics to track the impact value creation under our ownership. Part of our job is making sure both theses are aligned – we do not want to invest in businesses where the impact thesis requires fundamental trade-offs with our investment thesis.

With regard to reporting, our LP communication doesn't differ substantially from our other funds. We don't want to turn our companies into reporting agencies so we design 2-3 company-specific metrics to describe impact dimensions.

How do you view the balance between financial return and social impact? Are your and your investors' expectations on returns any different from a traditional buyout fund?

The key point here is that we don't view it as a trade-off, and part of the core mission and ambition of the team is to prove that you can have meaningful impact while also generating industry-leading financial returns. Every investment we evaluate must offer target financial returns that would be typical of a traditional buyout fund. Impact potential is also a must-have on every deal, but it is not sufficient on its own.

In addition to the obvious social benefits of this type of investing, are there any competitive advantages that you have noticed?

We definitely find our approach gives us a significant advantage in many situations where the management or owners have a strong mission-focus. There's a growing generation of founder businesses that care deeply about how they do business and not just about making a profit. The nature of the edge this gives us in winning deals can vary, but overall we're finding it to be a significant advantage, talking to sellers or managers who really appreciate having a potential new owner who speaks their language and shares their vision and passion for the impact potential, and there aren't many PE firms doing this in a proactive way today.

More generally, good things happen to businesses which consider all their stakeholders. We see that in an obvious way in the consumer space where winning brands are aligned with major trends such as healthier living, sustainability and supply chain transparency, but this is also true for the broader business community. Our target businesses typically have more efficient use of resources, higher employee productivity and better relationships with their counterparts, which all turn into long term competitive advantages.

Double Impact has now closed its first five transactions. Can you tell us more about why you chose these assets?

Taking our 2017 acquisition of Living Earth as an example, Living Earth is a leading processor of organic waste and producer of sustainable landscaping products in the southern United States which helps divert organic waste from traditional landfills. This fell within our sweet spot and was an intrinsically high impact business, reducing landfill waste and carbon emissions and increasing the reuse of organic materials. Living Earth is a clear leader in Dallas and Houston and has a long history of organic growth benefiting from a growing municipal focus on diverting recyclable materials from landfills. It's an attractive and stable core business with significant potential to drive further impact as it rolls-out both in core markets and regionally, and, as such, satisfied not only the impact thesis but also the investment thesis. This is a business which would have been attractive to Bain Capital even if we didn't have a specific interest in social impact. In this case, the sellers were looking for a partner who shared their vision, so we had clear alignment which allowed us to differentiate ourselves from our competitors.

“ We don't view it as a trade-off, and part of the core mission and ambition of the team is to prove that you can have meaningful impact while also generating industry-leading financial returns. ”





Trump Reforms

On 22 December 2017, President Donald Trump passed new legislation commonly referred to as the Tax Cuts and Jobs Act (the "Trump Reforms") which represents a major overhaul of the US federal tax system that has the potential to affect how private equity deals are evaluated and negotiated.

While deals that may have been on hold in the period of uncertainty leading up to the passing of the reforms can now move forward, the Trump Reforms will affect tax due diligence, financial modeling and the negotiation of sale documentation. Careful planning will be necessary to both realize efficiencies and avoid pitfalls created by the new rules.



CIT rate reduction

For taxable years beginning after 31 December 2017, the corporate income tax rate will fall from 35% to 21% and the corporate alternative minimum tax has been repealed. This represents a significant reduction and brings the US in line with the European trend toward lower corporate tax rates.

The lower corporate tax rate has several implications for M&A activity, including:

- An increase in target company values by improving bottom lines.
- Reduced corporate tax liability on the disposal of unwanted assets.
- A decrease in the value of target company tax attributes and an impact on cash-flow projections which should be factored into any acquisition.



100% Expensing

Within certain parameters, the Trump Reforms allow purchasers to immediately expense 100% of the price paid for US “qualified property” (i.e., tangible property with a depreciable life of 20 years or less and computer software) acquired from an unrelated third party. This should make it more attractive for a buyer to structure an acquisition as an asset (or deemed asset) purchase as opposed to a share purchase as they seek to achieve a step-up in the tax basis of qualifying assets in order to maximize this benefit, even if a seller seeks to keep a piece of the increased tax shield via a higher price.

The change in tax law will also increase the importance of the negotiation and documentation of purchase price allocations in asset (or deemed asset) acquisitions. It increases existing tension between buyers, who will want to allocate as much as possible to tangible depreciable property eligible for the 100% depreciation, and sellers, who will continue to try to maximize amounts allocated to assets having the highest tax basis in order to produce the lowest taxable gain.



Interest expense deduction

Companies will not be able to deduct net interest expense exceeding 30% of adjusted taxable income (defined generally as EBITDA through 2021 and EBIT thereafter). This could dampen the tax benefits of utilizing debt to acquire a portfolio company, likely reducing the overall number of leveraged acquisitions, and the possible replacement of debt with preferred equity.

Moreover, with no “grandfathering” of existing debt funding completed transactions or debt for pending acquisitions – even those with a binding acquisition agreement and lender commitment in place – both future deals and those that have already closed will need to be reviewed for the impact of this new limit on interest expense to be seen.

While this change is expected to have a significant impact on highly leveraged businesses, its adverse effect may be offset by other provisions in the Trump Reforms, such as the lower corporate tax rate and 100% expensing.



Repatriation of foreign earnings

The Trump Reforms impose a one-time tax on the repatriation of foreign earnings, with two significant implications for private equity transactions:

- This should allow many US companies to access the cash of their foreign subsidiaries at a lower US tax cost, providing them with liquidity to fund acquisitions.
- Acquirers of US corporations with foreign subsidiaries should be aware of the target’s potentially significant deferred US tax liability, which may be accelerated in connection with post-acquisition integration transactions.

Overall, we expect a lower US corporate tax rate to make the US more attractive for inbound M&A activity and potentially increase the value of US domiciled businesses. Whether the package of reforms as a whole has a positive or negative impact on private equity M&A will depend on the particular features and nuances of each transaction. The year ahead will be an interesting one as the impact of the Trump Reforms becomes more apparent once the market has had additional time to evaluate and adjust to them.



NOLs

The Trump Reforms also change the treatment of net operating losses (“NOLs”). Previously, they could be carried back for two years and forward for 20 years. Under the new regime, NOLs arising in tax years ending after 31 December 2017 can no longer be carried back and can be carried forward indefinitely but are only available to offset 80% of taxable income. The effect of this change and other Trump Reforms on the treatment and valuation of tax attributes in private equity transactions could include:

- Target company NOLs will have less value in a lower tax rate environment and valuations should take the NOL changes into account, likely reducing the amount sellers are compensated for losses.
- In the context of 100% expensing, the likelihood of NOLs being created in any year in which large capital expenditure is incurred increases.
- The restrictions will change the dynamic of negotiations in respect of what were previously purchase price increases or post completion payments compensating sellers for the benefits to the target company of NOLs created by extraordinary tax deductions arising on a transaction (such as the exercise of equity incentive arrangements and transactions fees).
- Purchasers will no longer be able to rely on a target’s NOLs to mitigate the cash tax impact of historic liabilities from periods prior to the year in which those losses were generated. This will likely affect the negotiation of pre-closing tax indemnities.





“Change may not be easy... but then our people go to a plant floor... and demonstrate their ability to make peoples’ lives easier, people buy in.”

Monomoy Capital Partners

Engineering success

Launched in 2005 with three employees, Monomoy Capital Partners has been building both its own platform and better businesses in the North American middle market ever since. Operating predominantly in industrial, distribution and consumer spaces, Monomoy’s approach is occasionally described as “a little bit different.” Director **Jaime McKenzie** shares examples, and explains how today’s team of 35 applies the principles of lean manufacturing to construct value for investors.



Jaime McKenzie
Director
Monomoy Capital Partners

Jaime McKenzie is a director at Monomoy and leads Monomoy's private equity investments in the middle-market, with a core focus on manufacturing, distribution and consumer-facing sectors. She is responsible for the sourcing, diligence, negotiations, structuring, monitoring and exit of Monomoy acquisitions. Over her 10-year tenure at Monomoy, Ms. McKenzie has served on the Board of Directors of a number of Monomoy investments; she served as Chair of the Board of recently-exited Katun Corporation; and currently serves as Chair of the Board of Friedrich Air Conditioning.

What's your view on where we are in the cycle right now?

What we say is that we're closer to the top than the bottom and we've been saying that for a while. We don't have a full view of when it might end but we also haven't seen any signs to indicate that it won't. If there's a bubble right now, it's a lending bubble. Financing is readily and consistently available at high levels of leverage with new pockets of capital showing up all the time – new funds and new lenders that people hadn't heard of yesterday are doing deals today.

This environment is both the biggest challenge and the biggest opportunity for us because tapping into that leverage creates opportunities for us in our investment process. In the medium-to-long term, if those companies become over-levered, they're the next acquisition candidates for us. We look at opportunities on both sides of that cycle.

What do you do to mitigate cyclical risks?

First, we have to remain disciplined and not over-leverage our businesses or rely on leverage for returns. The number one thing is to price our acquisitions correctly. That's without a doubt the best way to mitigate risk. Then you have to be willing to roll up your sleeves and tackle the challenging situations. We integrate our team into portfolio companies very early to develop a

“The current environment is both the biggest opportunity for us and the biggest challenge.”

value creation plan (VCP) – a unique operational improvement program designed for each company by our operating team of seven individuals, one of the largest in-house operating teams in the middle market. Getting that operational oversight so early on in the process allows us to pay more for assets in some cases because we know what we can do to make them better.

Our approach to value creation, what we call the “Monomoy Production System,” was inspired by the Toyota Production System of lean manufacturing that many of our operators were trained in. We developed a program that focuses on plant floor initiatives and expanded it to include working capital management, product repricing and supply chain optimization. It addresses a broader set of profit improvement and cash generation initiatives that apply to manufacturing companies, distribution, consumer products and others.

Monomoy is known for running “boot camps” in lean manufacturing – what are these?

They're two-week intensive training sessions for key managers from across our portfolio, held at one specific portfolio company plant every quarter. It's a combination of classroom learning and actual application – learning on the floor. You address problems identified by the host company and

complete a project based on techniques you've learned. Most importantly, participants can then take everything they've learned and apply it at their own companies. The program has been very well received, to the point where many participants are then going on to hold their own mini-boot camps at other Monomoy companies with their management teams.

How does Monomoy distinguish itself in operations?

Our operating partners are all men and women in the middle of their careers who are really in the trenches. They don't just work with the C-Suite – they're very involved in all levels of the portfolio companies, really as project managers. That's important from the seller and management team perspective: we are resources, not replacements, for the management team. We rely upon the management team to make sound decisions and recommendations to the Board.

Which sectors do you primarily focus on?

We have a lot of automotive experience, but with the VCP we've developed a broader tool kit we apply to other industrial businesses and eliminate inefficiencies up and down the income statement and balance sheet. Some recent investments have been in building and consumer products, as well as the marine space. A plastics supplier is very different from a powertrain components manufacturer, so it's critical that the VCP is developed and tailored specifically for the business in question.

Where do you seek investment opportunities?

We see a lot of opportunity in the US, so while we've owned and own companies with international exposure – and will continue to do so – our core focus is and will be in North America. We play in a very fragmented market and see plenty to do for the foreseeable future.

In the middle market, we're seeing many opportunities where we are the first form of institutional capital in an owner-operated or family-owned company, or a corporate carve-out. We love these businesses because they haven't gone through process and system upgrades yet. Change may not be easy from a cultural perspective, but when our

people go to a plant floor or distribution center and demonstrate their ability to make peoples' lives easier by streamlining processes, people buy in. And all of a sudden, the culture is shifted.

Does Monomoy practice what it preaches with respect to streamlining processes internally?

Yes, we actually shut down the firm for a week in January and tackled a list of internal improvement projects. We look at every firm process and ask: “What can we eliminate that doesn't add value for our investors, and what can we streamline without reducing the overall effectiveness of our processes?” We've done that with our internal sourcing, staffing, acquisition, value stream mapping and the 18-month review processes. Monomoy's commitment to continuous improvement permeates throughout our organization, makes us who we are and excites people about coming to work every day.

We apply the same methods to our own investment process. We hold businesses until we can no longer add value. Every 18 months, we review how we've created value in an investment, how we've stacked up against our underwriting plan, lessons learned and ask ourselves if we're still adding value as we decide to hold, build or sell. We have to be disciplined. It's easy to get attached to a portfolio company and want to keep holding it, so we put a process in place that guides us to operate with a sense of urgency and preparedness, to be able to pivot very quickly.

“We are resources, not replacements, for the management team.”



Black Toro Capital

Taking the bull by the horns

Black Toro Capital charged onto the Spanish investing scene in 2014, its partners bringing decades of experience gained in the global arena. Named “Firm of the Year in Iberia” for 2016 and 2017 by Private Equity International, BTC focuses on providing flexible capital solutions for mid-sized companies in Spain by structuring investments throughout the capital structure. BTC looks to partner up with exiting owners and stakeholders of companies with viable and proven business models undergoing financial and liquidity constraints as well as strategic leadership and/or ownership misalignments. Founding and Managing Partner **Ramón Betolaza** tells us about this corner of the Spanish market and the overall investment landscape there today.



Ramón Betolaza
Managing Partner
Black Toro Capital

Ramón Betolaza has over 20 years investment experience in special situations, rescue and stabilization of companies across the cycles in Europe, U.S. and Asia. He was a partner from inception of MatlinPatterson Global Advisers LLC in New York, which was created in 2002 through the spin-off of the Credit Suisse Distressed Securities Group. Ramón was the Head of Europe from 2006 and a member of the Investment Committee until his retirement of the firm in December 2009. Prior to July 2002, Ramón was director at Credit Suisse in the Distressed Securities Group, the predecessor group to MatlinPatterson, which he joined in 1997 in London. Ramón started his investing career in distressed and special situations at Banco Santander in London at the inception of the European High Yield Market in 1996. He holds a Degree in Economics and Financial Management from Universidad Comercial de Deusto and earned his MBA, summa cum laude, from IE – Instituto de Empresa Business School, where he currently serves on the IE International Advisory Board and is a member of the Council of Advisers to the IE Fund. Ramón has extensive experience as a proactive board member in private and listed companies. He currently serves on the boards of various privately held companies.

What makes this an interesting time in the Spanish market?

First and foremost, Spain implemented a lot of very difficult reforms following the financial crisis. One of the biggest of them was reforming labor laws to make them more flexible. Another was changing the bankruptcy law to help the sale of productive units, separate from balance sheet restructuring. There have been quite a few important reforms successfully implemented in Spain and now it's almost the poster child of Europe that others are looking to follow. It's not so much that Spain is going to be such a prolific landscape for investment but that it's, for once, becoming the spearhead of what is going to happen in the rest of Continental Europe.

Also, we have undergone one of the biggest systemic shifts in the financial structure in Continental Europe since the end of the Second World War: away from bank lending and toward alternative sources of financing. In Europe overall, banks and savings banks represented 80% of small and medium sized enterprise (SME) financing before the crisis and today it's at around 20%. In Spain, that pre-crisis figure was even higher but, with so many changes to how banks can deploy capital, that isn't going to be possible going forward and there needs to be a new form of financing so the alternative financing model is really just beginning.

In the next 12 to 24 months, there will be a wave of companies needing new sources of financing, those that took advantage of the "amend and extend policy" that most banks offered to avoid real changes. In the next four or five years, I think there's going to be a better understanding of the alternative finance model. There will be more firms doing what we do, and also more private equity firms overall because there is a significant under-representation of private equity in Spain versus the rest of Continental Europe.

How does PE in Spain stack up to the rest of Europe?

In Spain, private equity is 0.11% of GDP compared with a European average of 0.33% and 1.5% in the US so just based on the European average, the industry could grow threefold in Spain in the next 3-5 years. You have several well-known Spanish PE firms and some of the global PE firms and then, at the other end of the spectrum, you have a vibrant venture capital landscape. You also have firms in the turnaround or 'real distress' space but there are still very few focused on special situations right now.

Spain is very unique because SMEs represent over three-quarters of the economy compared with most of Europe where the figure is closer to two-thirds. A lot are substandard in size and most are privately owned by families – first, second or third generation – and they ascribe a much larger value to control than financial investors do. Often, the theoretical economic value of the equity is zero so you have to find a solution to unlock the achievable value.

How do you identify and unlock that value?

You need to compare the company to its peers, locally and internationally, and identify the key value drivers. Once you understand the economic value, you look at the other side of the balance sheet and ask where the value breaks. In Spain, this is mostly in bank debt and theoretical equity. When you understand where the value is, you can work with the banks and the owners on a solution – a systemic solution that will help the families or entrepreneurs retain long-term control of their business. We want to be a temporary partner to the 'natural' owners of the company and help them find a way to retain long term control.

In Spain, the natural buyers are the people who founded the company. Taking the company away would create a negative situation – you'd extricate them from their most precious asset and socially uproot them, because they usually live in the same community. Bringing them along as our partners, and our most natural exit, eliminates a lot of the risk in our investment thesis.

What makes for an interesting investment opportunity and what sectors do you like?

We are basically sector agnostic but we have invested in a wide range, including biotech, pharma, tourism, consumer goods, heavy industry, equipment manufacturing, autotech and new materials with respect to aerospace. Beyond that, we like companies that have a specific, unique product or expertise that can be sold consistently and repeatedly or that can be extended into a different country. Over 47% of Spanish SMEs have some form of international presence. Taking into account the type of companies in which we normally invest, one of our main questions when we look at a company is, "Does it have a reason to exist?" Spanish companies have really fought to gain market share, exposure and – as we call it – a reason to continue existing.

How is BTC uniquely positioned to capture the current opportunities in Spain?

Our senior team has a long history of international experience – from "Anglo-Saxon training" in New York and London to emerging markets in Latin

America and post '98 Asia. The international experience helped us understand there is a "pattern of recognition" when looking at companies when it comes to recognizing the value. The cultural and legal framework may be different but there is a solution if you understand that every country has different intricacies you need to appreciate. This experience and outlook has given us the right toolkit to apply to the Spanish market now.

Finally, what keeps you up at night ... and what gives you hope?

What keeps me up is not having enough capital to take advantage of the opportunities that we're seeing and help more companies that are viable. What gives me hope is that we have a lot of investors sharing significant interest in our strategy, and I believe that with their support, we will be able to consolidate our presence in this space in Europe.

 Spanish companies have really fought to gain market share, exposure and – as we call it – a reason to continue existing.

“ We make the investments that we believe in, regardless of whether we have sunshine or rain.”

Wilson Rosa
Managing Director
Advent



Wilson Lourenço da Rosa joined Advent in 2007. Previously, he spent four years with McKinsey & Company in São Paulo and Rio de Janeiro where he focused on strategy, corporate governance, organization and operations projects for major Latin American companies in different industries, including media, consumer goods and utilities. He also worked for Vivo, the main cell phone operator in Brazil, as strategy and business development manager, where he was responsible for mergers and acquisitions.”

Advent

Riding out the storms

Advent, as a long-time investor in Brazil, has proven that there's opportunity to be found come rain or shine with the right strategy and a patient approach. Managing director **Wilson Rosa** talks about identifying opportunities, the challenges of investment in Brazil and applying the Advent strategy in a uniquely Brazilian context.

What is Advent's approach to investment in Brazil?

We're not in Brazil just for the short term; we're here for the long haul. We've been making investments in Brazil for over 20 years. Looking over that period, you can see how volatile the country is. You see Brazil turning from a rich country into a poor one and back again, all in very short cycles. It's more difficult for investors who aren't on the ground in Brazil to understand these cycles, especially when it is becoming a "hot spot" one moment, and then undergoing a crisis the next.

That said, Brazil is a good country to invest in because its size means it has great potential for growth. If you can keep your nerve during the downturn, it will be followed by a better period and we have the patience to wait for the good times. Timing is key: we make decisions when the time is right and that's how we have always approached our portfolio.

Since 2008, Brazil has had a few up and down cycles. If you look at our portfolio, we did very well when Brazil was booming from 2010-2012 and we made a lot of divestments but we still didn't stop buying. When growth started to falter, we kept buying but we sold less.

Things are still tough at the moment, but we believe that Brazil will start to grow again. We keep making decisions based on the same investment thesis: to invest in companies with a strong microeconomic strategy. We don't bet on the macro-economy. We look for companies, even in sectors that are not doing well, that we believe can gain productivity and market share. Part of our investment thesis is that we can help a company grow regardless of the economic adversities.

“ We can distinguish between real problems and simply smoke.”

Are there opportunities in Brazil today for new investors, or are the opportunities available mainly for those who have a strong track record in the country?

Of course, it's more difficult for those who don't have a track record to have the courage to start investing in the country now. Not just because of the economy but also because of reputational issues that came to light after the "Car Wash" corruption investigation. It's easier for those who are already in Brazil to understand what's a real problem and what's not.

In our view, it's a good time to invest because there are very good companies in Brazil that were hit by the crisis. These companies have a good business, a good management team, a good market share, but their financials suffered because they have debt that turned out to be more expensive than expected. So now, with a moderate view that Brazil will improve in 2018-2019, we think it's an ideal time to invest in these companies.

What are the challenges of doing transactions in Brazil compared to the US, or other countries in Latin America?

Doing private equity transactions in Brazil is different from doing private equity transactions in the US or Colombia, for instance. Each country has its own peculiarities. The availability of debt, the terms of the debt and the cost of the debt are very different. For example, in Brazil, the interest rates may fall, but

we see little room for improvement in the terms of debt. Brazil has some structural challenges which we believe will continue to exist but won't change our appetite for investing.

Brazilian laws also tend not to be very clear, especially labor and employment laws, which sometimes makes it difficult to ascertain the value of the contingencies. In this sense, we believe that we are in a better position because we know the country well and we can distinguish between real problems and simply smoke. In terms of the macro economy, we believe that the country will start to grow again, but the current situation is still difficult.

That being said, while we don't seek higher returns in Brazil than in other countries (our investment cases are always based on microeconomics), the size of the country and the opportunity pool do make up for the risk involved in finding transactions. Put simply, Brazil is very big, so there are more opportunities for us to look at here than in other countries in Latin America.

With all these peculiarities, does Advent adopt a governance structure in Brazil different from the governance structure it adopts in other countries?

Our governance structure follows very similar patterns in Latin America, North America and Europe. What's different in Brazil are the investment theories and how comfortable we need to be about the

operational improvements necessary in the target companies. Since most of our return comes from the company's growth, we need to be more confident that the growth is feasible. Governance itself doesn't change but our due diligence is slightly different. This is true not only with respect to Brazil, but also with respect to Latin America as a whole.

With Brazil's ups and downs, has Advent changed its investment strategy in the country over the years?

Advent has changed its strategy over the years, but it was a global change. We strengthened our vision of the various industries and we have people assigned to projects based on their industry expertise in order to make sure that our microeconomic thesis for a company is right. For instance, today I dedicate myself solely to transactions in the retail industry so I am involved in all of the retail transactions that we do in Latin America. I can compare the operational efficiency of a construction materials retail chain in Brazil with that of other construction materials retail chains in Colombia because I have already seen many of these companies.

We are stronger in Latin America now than we have ever been, and because the banks are not providing debt as they used to, there is a big opportunity to invest capital in Brazilian companies.

Is there any specific industry in Brazil that should be on the watch list?

There are opportunities in all industries, even in those that can be more affected by downturns. Despite the downturn in Brazil since the second half of 2014, our retail and consumer goods portfolio companies grew by double digits each year. Even with the economy falling, our portfolio companies gained market share because they were properly capitalized, with good management and a strong business plan. If you have a good investment case and a good team, you will grow. We make the investments that we believe in, regardless of whether we have sunshine or rain. Of course, when there is rain, you need to raise the bar to make sure that the business will still grow properly.

What is your advice for structuring divestments in Brazil?

Patience, a lot of patience. Again, in a volatile country, if you jump into a decision to sell, you will encounter the worst exchange rate and conditions for finding a buyer for your company. So, having the patience to wait for the right window is crucial. In addition, whenever the right window opens, sell, even if it is not the best timing to do so based on the stage of your investment, because while the window opens it can also close again quite quickly.

AUCTUS Capital Partners

Tailor-made solutions for a complex world

Since its launch in 2001, AUCTUS has carved out a reputation for excellence, recently named among the Top 10 Best Buy-Out Funds in the world for the 4th consecutive time. **Daniel Meuthen** shares how AUCTUS finds solutions for myriad interests when a family-held business seeks outside capital and talks about current opportunities in the German market.

“You can see a changing environment as a threat or an opportunity.”



Dr. Daniel Meuthen
Partner
AUCTUS Capital Partners

Dr. Daniel Meuthen, Ph.D., is a Member of the Management Board at AUCTUS Capital Partners AG. Daniel joined AUCTUS in 2006 with a main focus on healthcare, retail, and consumer goods. Previously, he was an Investment Director at 3i Group plc., working in Hamburg and Munich and focusing on funding growth and ownership successions for medium-sized companies.

AUCTUS Capital Partners has been featured four consecutive times by the Preqin Alternative Assets Performance Monitor as among the Top 10 Best Buy-Out Funds in the world. What is driving your success story?

In short, we focus on creating what we call "tailor-made solutions"; adding value in areas where we have expertise; and on bilateral negotiations rather than auctioned deals. In addition we are focused on Buy-and-Build strategies, which in combination with a post merger integration strategy very often lead to what we call "learning systems" in order to increase performance. We take the time to understand the dynamic between the parties involved and bring highly flexible structures to create a transaction that works for everyone. Empathy and anticipation is key to understand the parties involved in a transaction and develop motivations into aligned strategies in favour of the company.

We have a very open dialogue with sellers about our agenda and vision for the business – very often we also share the operational model in combination with different financial deal structures to demonstrate where we see value and describe different risk-return combinations. Being honest and transparent is critical to building trust with owners and entrepreneurs involved in potential transactions.

In my view, our success is also necessarily linked to being selective in our investments and in our ability to say "no". For a lot of PE firms this may be a challenge because investing is their reason to exist and, without a consistently strong deal pipeline, they may feel forced to make investments just to keep investors happy. I think real investment strategy begins when you see the potential, work on aligned interest but also have the courage to decline the opportunity if you see too many issues in the transaction. Then you know exactly what you're looking for and what you're not.

What challenges are you facing in your investments, and how do you best overcome these?

On one side to encourage owners and management to drive the growth of their companies by detailed strategies e.g. through organic growth or acquisitions. Very often they are too busy with daily operational business and have less time for forward looking strategies. This is where we start with questions like: "What do you think, if you ..." or "Have you ever thought about ..." and "Why didn't you ...".

On the other side, we often see complex ownership structures with multiple shareholders across different branches of a family, where everyone could have a different agenda. Some want to sell 100% of their

“ I think real investment strategy begins when you see the potential, work on aligned interest but also have the courage to decline the opportunity. ”

shares, others want to remain invested, and others want to stay invested and take an active role. These are challenging but also very interesting deal situations because you become kind of a consultant to the family. It is essential to take the time to talk to everybody and understand their personal perspectives on the future of the company and how it fits their personal plans. I have never encountered a situation where there was no solution.

Additionally, organizational development is key for our investment strategy. It starts very often with a situation we call "premature succession". This means, that at the time we invest, we still see high dependency on the founder. A lot of investors see this as a risk. We see this as a good investment opportunity as long as the owner and AUCTUS have a common and shared view on how to reduce this dependency in the forthcoming years.

This is very much linked to the question of who will execute the strategy as most of the time forward looking strategies need more management. So, therefore, in the mid-market you often have a lot of dependency on the founder and owner. They are looking for a partner because they want to grow, but also because they may be thinking about taking a step back and taking a different role. This can be a challenge for the company, so open discussions about a clear vision for the future are critical.

How do you think the German PE market has been, or is likely to be, affected by global political events such as Brexit or the decisions made by President Trump in the US?

We are not living on an island in isolation. Economic and political developments, both in Europe and worldwide, influence our daily business, of course. For example, we have a lot of companies with material export exposure e.g. to the US, UK or China, so we have to ask "what does this mean for us?" in the context of those businesses. You can see a changing environment as a threat or an opportunity. For me the key question is, "Is this a short term change or a trend?"

How do you ensure your portfolio companies develop and grow despite challenges in the market?

The tougher the general environment is, the more important anticipation of operational and strategic scenarios becomes. You have to have a good understanding of what happens in the market of the company and also what could happen in the future. Based on this you have to develop strategies that can turn challenges into opportunities. It is important to pursue what we call defense strategies to safeguard the achieved goals. At the same time you have to develop the organization and structure

of the company to be able to realize the envisaged strategies. The aim is always to beat market growth numbers. This all has to be well balanced. So therefore it is very important to focus on the single steps of the value chain instead of just investing in a company, keeping it in the portfolio and then selling it to make gains through de-gearing or de-leveraging. Those times are over.

So you adopt mostly operational strategies, rather than financial strategies?

Operations come first and financial modelling follows, but it's important to have a balanced view. You need to be clear about how a new financial structure will affect the stability of your portfolio company.

We encourage the management to have a clear picture of the starting position, on day one of your investment, and make an operational plan for the following 100 days, 1 year, 5 years, etc., while remaining flexible so that the company can adapt to changes. You need to develop a deep understanding of what the future challenges will be and prepare the company to address them. Does the company need to invest in product development? Or is it necessary to invest in machinery to make production more efficient?

Benchmarking is also extremely helpful. When we make an add-on acquisition, we look at the KPIs of both companies to see which company does what better – this is our “Post-Merger Integration” process. It's a learning system that gives you the ability to look at your platform investment compared to other market participants and make improvements accordingly.

How important is it to you that management invest alongside AUCTUS?

Very often we face situations where the founder and owner wants to realize some of the created corporate value and at the same time wants to stay on board for several years. In addition to this “wealth strategy” he also has a “personnel strategy” like staying in the company for a transition period in the role as e.g. a CEO, but then wants to change to the Advisory Board. It is a very natural desire for someone who worked very hard for a lot of years. As mentioned we have to turn a premature succession situation into a real succession, which stabilizes the company. For this transition the owners very often are looking for experienced investors. The ideal situation is, that there is good management in the first or even second line. Personal strategies focus on developing these people to become full first line management, who will lead the company in the future.

Consequently we love having management invest because alignment is important to us. When everyone is putting their “neck on the block”, as we do, it's much easier to discuss the future and grow the company. It also gives the manager the feeling that they are a true owner of the business and that's great motivation. If we have a top manager who isn't willing to invest in the company he is a key manager in, that would give us cause for concern. That said, while we encourage management to do this, it's not essential. Whether or not key personnel wish to invest depends on many things, but we can certainly prepare the offering and try to build support for the individual by offering flexible arrangements.

With the continuing increase of PE dry powder and average purchase price multiples rising in 2017 to a historic high of 10.3x, what is your strategy to do new deals without overpaying?

I think you have to dig a little deeper into multiple levels. As a general rule, small and mid-cap companies have lower multiple factors than larger companies in the same sector, so this average of 10.3x as a general rule isn't really relevant to us. In fact, it's one of the reasons why we focus on “buy and build” strategies. We can combine several companies to make the asset bigger – increasing turnover, profitability and stability, so it becomes more interesting for larger buyers.

One thing we don't like too much is to buy in an auction from another PE seller because, often, every obvious operational improvement or financial engineering has already been done. It's also difficult to offer a tailor-made solution in this scenario because the PE company typically wants to sell 100%. Our strength is trying to understand the entrepreneurial background of companies that need our help to grow, and by their nature these companies are not priced at the market average. We can help make the company more stable, independent from its founders, or gain a broader market share, so it is in a much better position for third parties.

You have a particular focus on healthcare. What current market trends are you seeing in this sector?

Healthcare is always a distinctly national issue because it's a regulated market, but there are some

trends that apply to every country in Europe, such as an aging population and exploding costs. One key theme is how to increase treatment without increasing overall costs and this is driving several trends. Specialization in areas like elderly homecare, rehabilitation and diagnosis related grouping (DRG) clinics that focus on specialized treatments and operations is one way. Digitalization is another. A lot of treatments in the rehabilitation space have been transformed by technological developments and this will likely continue. In the neurological market, you can do a lot of brain training with a computer or mobile device. These are totally new and geography-independent developments – you don't have to go to a treatment center for them.

Corporate governance is also key because compliance is a hot topic in the healthcare sector. It's a real driver for consolidation because we can say, “if you come to us, we can review your processes and ensure you are compliant with changing regulations.”

Finally, we understand that AUCTUS doesn't generally talk about its specific investments publicly. Can you explain why?

The thing about private equity is that it's private – not just in its source of capital but in terms of the importance of discretion generally, particularly given that many of our sellers are family businesses and individual entrepreneurs. For this reason, when we invest in a company we often don't make it public. We focus on being a partner in the business and finding the best solutions for everyone involved rather than publicizing our involvement.





“ We show the owners that they can achieve greater value with us than without us.”

Alothon Group LLC

Nurturing opportunity

With an investment history in Brazil spanning two event-filled decades, Alothon Group LLC helps investors capitalize on the opportunities created by change. Investing principally in middle-market businesses in Brazil, the firm has established itself as a go-to source for “solution capital.” Managing Partner and founder **Ettore V. Biagioni** explains what this means, and what it takes to thrive in such a changeable investment landscape.



Ettore V. Biagioni
Managing Partner and Founder
Alothon Group LLC

Ettore V. Biagioni is the managing partner and founder (2004) of Alothon Group LLC, a Private Equity firm headquartered in São Paulo, Brazil. Mr. Biagioni has been doing business in Latin America since the mid 1980's and has worked with members of the Alothon Group since 1997. From 1995 to 2004, he served as Head of the Latin America Private Equity Group of Bankers Trust (BT), then of Deutsche Bank. He was also Head of BT's Latin America M&A prior to the acquisition of BT by Deutsche Bank. Other employers include Brown Brothers Harriman & Co. in New York (1980-1986) and McKinsey & Company in Italy.

What does the investment landscape look like in Brazil today?

First you have to remember that Brazil has over 200 million people. It's one of the 10 largest economies in the world and it has an incredible number of mid-sized companies that are not yet institutional. As a result, there are many products and brands that can be consolidated, and there's a relatively limited amount of private equity capital available for the middle-market space. It's a large single market with less competition and better entry values than other countries so there's room for attractive returns.

We definitely saw a resurgence of economic activity in 2017 and more confidence from management teams about where the economy is headed. With inflation under control, some privatizations and labor reforms, I think we'll see continuous, gradual improvement in both government policies and the economic situation. Of course, there will be bumps along the way, Brazil is a country with more volatility than developed markets, in currency and economic cycle, but we're going in the right direction.

What are the secrets to investing successfully through such volatility?

The key is to invest through the cycles, which requires the discipline of investing somewhat consistently over a period of 10, 15 or 20 years. Rather than trying to predict the "right moment," you diversify the investment period at both the entrance and exit. It's also worth noting that Brazil is no longer such an outlier in terms of currency volatility. Currency volatility has become more common even among major global currencies than it was five years ago.

Our investors are realistic about the volatility, and we target returns that should more than compensate for

that risk. In US, European or developed Asian markets like Japan, target returns are significantly lower than those expected in Brazil. That's why when investors look at Brazil, they seek to work with managers targeting sufficiently high returns - ones that have achieved and expect to continue to achieve returns that justify the risk.

How does Alothon work to deliver those returns for investors?

We bring what we like to call 'solution capital' to investments - bringing in capital along with a solution that solves a challenge or problem, which allows us to buy into businesses at very competitive valuations. These challenges or problems usually fall into three categories: First, we help in transitions between entrepreneurs who founded and ran a company and the next generation, who may need help to grow into the position. Second, we serve as a catalyst to align interests between multiple owners and their different objectives. And third, we can help bring top management talent to run the company with a private equity mindset, which for a family may be difficult to do.

We also bring both investment and operating expertise to the investment, from the investment thesis to its execution and management. We have senior investment and operating managers working side-by-side so we are able to bring faster, and perhaps more decisive, operational improvements to make the business run better. We don't have a historical legacy with the company or a vested interest in any particular strategy or single direction. We are truly objective. Our only interest is to maximize the value within five to seven years, and exit the investment during that period of time.

How would you describe your strategy?

We operate at the intersection of value and growth. We seek to acquire companies at very conservative prices which are also expected to grow significantly. We strive for well-capitalized businesses where we can consolidate market share.

Where do you see the most attractive investment opportunities?

One is consumer products such as those in the food and beverages, cleaning, beauty and wellness space. We like disposable, consumable items with small ticket sizes, yet brand value, that you buy on a frequent recurring basis. These products tend to be less sensitive to volatility and cycles in the economy. Another is outsourcing, on both an individual B2C and a B2B level. Brazilian businesses are working to become more efficient, so the outsourcing of non-core is definitely a growth area.

What are the opportunities and risks for Brazil going forward?

Overall, we're on the right track but there's more work to do in several areas, such as to restore the credibility of the political system which has been dimmed by the political events of the last few years. We have bottlenecks that limit growth: the broad quality of education has to improve and requires significant investment to enhance the efficiency of our labor force, products and services. Improvements in infrastructure, from the traditional ones to IT and telecom, are also essential. Brazil will be privatizing a number of assets. In the medium term, that should increase efficiency in those sectors and generate revenue for the government, therefore helping reduce the budget deficit. All these required changes are not going to be without controversy, but we're on an upward trajectory.

Finally, what keeps you up at night ... and what gives you hope?

Keeping me up is working out how to identify weaknesses in talent and teams early on and how to shore them up. Giving me hope is Alothon's team - both at Alothon and the portfolio companies - because, ultimately, private equity is a people business.

“ I think we'll see continuous, gradual improvement in both government policies and the economic situation. ”

Altra Investments

Building visions together

Altra's two founders, friends since school, predicted the Colombian private equity market was poised for take-off when they founded the firm in 2007. They began with deal-by-deal transactions among high-net-worth individuals and family offices. The moment the national pension fund system opened for institutional investment two years later, Altra was ready to leap. Partner **Juan Pablo Gomez** talks about the fundamental investment landscape in Colombia and the Andean region, and shares his outlook on the future.



Juan Pablo Gomez
Partner
Altra Investments

Juan Pablo Gómez joined Altra after more than 10 years of experience in investment management projects. Prior to joining Altra, Mr. Gomez served as Chief Executive Officer of ContourGlobal Latam, a subsidiary of ContourGlobal, which is a leading independent power producer that develops, acquires and operates electric power projects around the world with a diversified portfolio of USD 1.1 billion in assets under management. Mr. Gómez holds a Bachelor of Business Administration from Colegio de Estudios Superiores de Administración ("CESA") in Bogota and a degree in International Business and Trade and Economic Policy from American University in Washington D.C.

Colombia and the Andean region have weathered quite a shock in recent years. How do things look today and where are the opportunities?

In 2012 when we raised our first fund, sectors like oil and gas were developing fast, the political climate was very encouraging and it was a compelling opportunity for international investors to become early movers in the market. The collapse of commodity prices, including in the oil and gas sector, had a significant impact on all asset classes in the region due to devaluations and the levels of currency exposure in underlying assets. Usually, investors would be looking for higher premiums in emerging markets in order to justify the increased risk over investments in developed markets. There was a down period but Colombia and Peru handled the commodity collapse particularly well, have moved beyond it and we don't see another big shock on the horizon. Today, Colombia is growing at 1.5-2% and Peru at 2-3%.



“It takes being on the ground – a lot of coffees, a lot of lunches.”

We believe that there is now opportunity for capital seeking diversification that is willing to take a long term view on the opportunity and exposure to the region. These investors, in essence long-term institutional investors, have a lot of capital to deploy and are looking for sub-regional strategies. There are many sectors in which you can still find opportunities in the value-chain, as discontinuities, fragmentation and consolidation strategies continue in sectors often owned by family businesses which are in need of management expertise and growth capital. We believe it's this mid-market space, as opposed to large-cap or infrastructure opportunities, where there is significant opportunity.

How is the Colombian mid-market different from other countries or regions?

The mid-market in Colombia is certainly smaller than other markets. We have seen international and pan-regional funds come into the market looking for investments of USD 80 million or more – which is considered large-cap here – while we look for mid-market deals between USD 20-40 million where the buyers are people like us or family offices, for instance. There aren't a lot of local mid-market private equity managers in Colombia.

In addition, access to deals is different in the Colombian market. A number of the mid-market opportunities are family businesses that come to you through your network and reputation. We know people that know a family that has a business going through succession, they present us with the opportunity, and we establish the dialog.

The primary challenge to structuring a deal in Colombia is a cultural one. Helping an entrepreneur understand that they need to start detaching and diversifying is a long process. It takes being on the ground – a lot of coffees, a lot of lunches – to sell them a vision of how accepting capital can help with both growing the business and diversification.

How does Altra address these challenges and add value to the companies you invest in?

We help create a plan for institutionalizing the business, from bringing in the right management to establishing clear processes. We don't do financial engineering. We believe returns are more sustainable

if we target top-line growth or EBITDA growth at the operating level. We also roll up our sleeves and get into the nitty-gritty, working as true operating partners.

And what about when it is time to exit?

We are finding that most of our exits are to strategic investors, both local and international, and also to financial investors – large funds where the scale of the business might make it interesting for them to roll it into something larger. For example, we recently sold an outsourcing business to a global fund with plans to integrate it into a global platform, expanding that business' access into Latin America.

Capital markets are more challenging in Colombia – and Peru as well – and you don't see funds looking to exit through IPOs. We haven't pursued any exits that way. You see it in Brazil and Mexico, but not here.

For an issuer to list right now, it takes a year and a half and our capital market practices are outdated – for example, there's no book building (as in other capital markets) and pricing is based on a fixed-price structure. When you list, you have to put a price out there and hope that the market will like it. Pension funds and institutional investors have little incentive to take risk on new issues that have thin capitalization because they're likely to be penalized in terms of mark-to-market valuation. One of the most important things that needs to happen in order for private equity as an asset class to grow here is change in the capital markets framework and that means changes in regulation from the demand side and from the issuers' side as well.

What would it take to change that?

The pension fund community, the superintendents and the stock market have to sit down at the same table and work through the red tape to address the things that don't work. They have to try to learn from and adapt to what has worked in other markets. Capital markets exist already in other countries – we don't need to reinvent them. I don't know what the catalyst will be but it has to happen in the next five years because the pension funds cannot continue investing in the same issuers over

“ We roll up our sleeves and get into the nitty-gritty working as true operating partners.”

and over. In fact, there's a lot of money and liquidity and both the institutional and retail sectors are shouting for new issuers and new paper.

Are there any other challenges for investors in this region?

Another key issue is the rule of law. International investors want stability so we have to continue to work against corruption and promote the rule of law. Among other things, there has to be a clear set of rules and transparent avenue for litigation or arbitration in order to keep international investors investing in the region. Investors need to have confidence that there is a clear framework in place in order to be willing to take the risk of making a significant investment.

How do things look three to five years out?

What we hear from the pension fund community in Colombia and also from institutional investors is that they're not funding new managers. They're picking their best managers and consolidating their GP relationships, so you probably won't see the same GP names in three or four years.

What gives you hope for the future of private equity in Colombia?

Colombia has been a pretty stable country compared to other countries in the region. We have a balanced political landscape. We don't see ourselves in a situation like Venezuela's. Colombia and Peru are pro-business and have managed fiscal and monetary policy well. Our financial sectors are in very good health as well.

Time to leap

The past year has shown a number of institutional funds being burned by investments in Africa. Is Africa still “rising” or has it hit a wall?

Nabeel Laher, Head of International Private Equity at Old Mutual Alternative Investments, shares a fund of funds’ perspective on the art of investing in Africa and how uncertain times can offer real opportunities for those willing to play the long game.

“By 2035 [Africa] will have the youngest working-age population of any continent.”

“Proper due diligence...
is more critical in Africa than
anywhere else.”

There is often the sense that doing business in Africa requires a much more robust appetite for risk than anywhere else in the world. Would you agree with that?

The first thing to note is that there are currently a number of risks at a geopolitical level which will affect all of the geographies we focus on, not just Africa. Any conflict with North Korea, for example, could negatively affect foreign direct investment and trade in Africa by China, but it's likely that all of Asia would be affected by this. Brexit is another factor which is giving rise to much uncertainty since a lot of deal flow comes out of the UK. The other obvious risk is the global equity markets. It's no secret that the markets have recently been very hot and I suspect we are likely to see further repricing. Depending on where you are in a fund cycle, this could be a very good or a very bad thing.

There are risks specific to Africa, but these tend to be exaggerated by those not working on the ground and close to the realities of African business. Commodity prices had fallen significantly over the last five to six years, foreign exchange had dried up and currencies had taken a knock against the USD, which created short-term fluctuations and depreciation in restricted currencies. However, in

local currency and fundamental terms, companies have performed very respectably and in the last year African currencies have been a lot stronger, with some having appreciated against the USD. We hope we are at the bottom of the cycle and we have seen an upward turn in commodity prices already.

With regard to the reputational issues often associated with doing business in Africa, like corruption, great progress has been made. Some countries remain higher risk than others, but on the whole Africa is more democratic than ever before, and it seems that this will only improve. Africa is now full of great managers who have trained in global financial centers and are not going to put their careers and reputations on the line to endorse corrupt activity. In our experience, African private equity managers on an ESG level are among the best in the world, if not the best.

Why, in your view, should investors not be deterred from investing in Africa?

In Europe and the US, the working-age population is falling. In Africa, it's the reverse: by 2035, it will have the youngest working-age population of any continent; by 2040, it will have the most urbanized population, even more than India and China. The

pure scale of the market is incredible, and this mitigates business risk. It's a startling contrast with the US and Europe and is a great opportunity to be leveraged and there's also the chance to tap more into an emerging middle class.

As a result, approximately a third of consumer spending is in food and beverages, healthcare is improving significantly, and with Africa's ambitious young population, parents are allocating greater amounts of income to education. All these are indicators of greater prosperity and we have seen really strong returns in portfolio companies in these areas. In addition, financial services continues to be a strong growth area. Previously there were many African consumers who historically didn't have bank accounts, but that's changing quickly with the assistance of technology. Kenya, for example, is a world-renowned success story in terms of mobile money.

It's important to add that many of our investors like to be part of the opportunity to invest socially in transforming communities as well as securing attractive returns on their investment. Our Impact Funds in housing and education are revitalizing whole communities as a result of this socially conscious investment.



Nabeel Laher
Head of International Private Equity
Old Mutual Alternative Investments

Nabeel joined Old Mutual Investment Group's Alternative Investments in March 2015 as an investment professional within the International Private Equity team. Nabeel's responsibility is to originate, analyse, execute and manage investments, for the various funds, within the International Private Equity business and in particular, he is responsible for the Africa Fund of Funds.

Nabeel has over 10 years of financial services and operational experience.

Does this thesis apply across Africa? Which countries offer the most opportunity?

In my view, great opportunities exist across Africa. South Africa is more mature than other Southern African countries. In North Africa there are good opportunities in Egypt and Morocco; in East Africa, the most integrated block, the focus is in Kenya, Uganda and Tanzania, with Ethiopia showing good promise. In West Africa, it's Nigeria, Cote d'Ivoire, Ghana and the up-and-coming Senegal. And Zambia in the middle is also showing promise.

In light of the challenges, what do you look for when deciding where to allocate capital?

With the kind of geopolitical and economic risks I mentioned, nobody can predict what the effects might be, when, or the size of their impact. Our solution is to manage what's in our control. For example, we can start to look at special situation funds and funds that focus on defensive industries.

We also support managers who design portfolios to mitigate these risks. Examples include those who invest in companies tied to the micro, not macro, economy; those who invest in companies that derive revenue from USD, which results in a natural hedge; and those who stagger their investment pace so it mitigates currency depreciation at different points in time.

“The people who are going to be in Africa early are the people who are going to be the winners here.”

Some managers also mix up the kind of investment – going in with an equity check and then some kind of mezzanine or convertible instrument that’s denominated in USD. Portfolio companies are generally receptive to structuring in this way as the founders see avoiding dilution of their equity interest as positive.

As the largest private alternative investment manager in Africa with over USD 4.8 billion assets under management, OMAI focuses on relationships, working with trusted partner GPs that have well-established offices locally and with teams connected to the communities and established track records. They have built strong networks, they socialize in the local pub, they understand what’s happening on the ground. As a lot of the businesses in Africa are family owned, you sometimes need to build relationships over 5-10 years to be given access.

Our approach is to leave no stone unturned when performing due diligence. But it’s also about not going along with the crowd when deciding to invest. We will invest where others won’t because we have done the homework, gauged risk, mitigated it where possible and are content to be patient while the business matures.

The mid-market, in our view, offers many more opportunities than the larger company space. If you are running a billion-dollar fund and you’re trying to do 10 investments, it’s not easy to find good

attractive opportunities. However, if you’re in the mid-market looking to invest 15–20 million dollars, there are lots of opportunities. The last four GPs we’ve backed have been homegrown names in the mid-market, who understand the global context well. We expect more of these types of opportunities will become available over the medium-to-long term.

There have been a number of international funds that have come into Africa and retreated having been burned – what do you think went wrong?

I think their key mistake was taking models they used in developed markets and trying to implement them in an African context. They also tried to use similar personnel, who were trained in the global context, but with little local knowledge – in reality you need both. You need to be a local player to get access.

Some also failed to do proper due diligence, I think, on the partners they were getting involved with, which shows a lack of familiarity with the market. They rushed into partnerships with the wrong people very early on and got burnt.

Deals in Africa take on average six to seven years to exit, whereas in more developed markets we’re probably looking at four to four and half years; you need a different mindset. You can’t just come to Africa, put a lot of leverage in the business and then exit. Returns come from growth capital, rather than from financial engineering, and so patience is key.



That said, I think many funds have learned from these mistakes and have improved. Many are becoming better at structuring and, most critically, involving more local people. I think the next generation of managers will be smarter.

Why are you so confident about Africa’s prospects?

Put simply, the long-term fundamentals in Africa make sense. With a team of 93 investment professionals and offices in Cape Town, Johannesburg, Lagos, Nairobi and Abidjan, we are very close to the action and are able to understand the dynamics and nuances of investing in Africa.

This means we are not deterred by the noise around short-term, negative and sensationalist headlines, but if you look at what has happened over time, the story has gotten better, not worse. Africa is still rising, it has been growing a little slower than previously, but it’s still growing well. The opportunities around population growth and urbanization have not changed. The key, is therefore, to focus on the long term. Those who are in Africa early are those who are going to be the winners. Having a foot in the door first allows investors to be in the best position possible when the last frontier becomes the new frontier. These investors will reap the most rewards.

Outlier Ventures / Redsand Partners / Cruxy & Co.

The future of finance?

ICOs and the disruption of the traditional venture capital model

Is tokenization the future of early-stage tech investment? It's certainly starting to look like it. In 2017, blockchain technology companies raised over USD 5 billion via initial coin offerings (ICOs). That dwarves the USD 1 billion raised through traditional equity investments.

Following this surge in ICOs last year, we have seen the ICO boom continue in 2018. In the latest of a series of mega raises, the popular instant messaging platform, Telegram, has targeted a USD 2 billion ICO, including two "presale rounds" focused on large investors. It has been reported that the first presale round raised USD 850 million and included commitments from established Silicon Valley investors.

Insights from the sector

We asked three thought leaders in the cryptocurrency and blockchain space to share their views on the rise of the ICO and the potential impact on traditional investment.



Jamie Burke
CEO, Outlier Ventures

Jamie is CEO of Outlier Ventures, Europe's first blockchain venture fund, set up in 2013. Since then he has pioneered the convergence thesis that views blockchain as foundational to Deep Tech like AI, AR/VR, IoT and 3D printing scaling securely and eventually converging. As a global thought leader he assists a number of large corporations on how to invest in the space with an emphasis on Industry 4.0, Smart Cities & Mobility and is adviser to exciting startups IOTA and Hyperloop.



Nicole Anderson
Managing Partner, Redsand Partners

Nicole is managing partner of Redsand Partners, a venture build company focused on emerging business models of blockchain, crypto and token economies, artificial intelligence and more traditional areas of FinTech.

She acts as an investment (corporate venture, VC, family office and ICO) advisor. She is passionate about technology business models that are challenging the status quo and providing greater inclusion for people globally, she has focused on the innovation intersection of emerging technologies and emerging markets both physical and virtual.



Carrie Osman
CEO & Founder, Cruxy & Co.

Carrie Osman is the CEO & founder at Cruxy & Company.

Carrie trained at Mars Inc. and reached her peak after climbing the corporate ladder to run a £300m P&L. Carrie made a dream reality and Founded Cruxy & Co in November, 2013.

Carrie sits on the Advisory Board of a SV AI platform, is a gold-member & judge at FinTech Circle, mentors at Angel Academe, Cocoon-networks.

“If equity investors do not begin to adapt, they will risk losing ground to a paradigm in fundraising that has already shifted.”

“ There has to be a viable token model which represents onward consumptive and speculative value for it to be a success.”

What is an ICO?

ICOs are in effect an innovative form of crowdfunding. In an ICO, or token sale, a company sells digital tokens that are issued through distributed ledger technology, typically in exchange for bitcoin or other cryptocurrencies.

In a token sale, the tokens can perform different functions, for example:

- 1 payment tokens – which enable the token holder to acquire goods or services from the token issuer (think virtual currency);
- 2 utility tokens – which enable the token holder to obtain access to the token issuer's application or service (think membership card); or
- 3 asset tokens – which represent assets such as a debt or equity claim on the issuer (e.g., a share in future company earnings or future capital flows) and/or that are tradable as investments.

The rise in ICOs has sparked significant interest from regulators around the world, concerned that token sales may be falling foul of securities laws. Should VCs also be concerned? Are traditional investment models at risk of being disrupted if the ICO becomes the go-to investment model for innovative tech start-ups?

Is the rise in ICOs and token sales just a “bubble,” bound to burst, or a genuine paradigm shift in how technology companies raise funds? Should traditional equity investors start focusing on deploying capital into ICOs?

JB: It's both a fundamental shift and a bubble. Firstly the distributed ledgers, smart contracts and digitally scarce assets will form the basis for the next phase of The Web. One more decentralized, automated and open. Tokenization and ICOs/token sales also represent a fundamental shift in that the software will be financed and owned. At the same time, the market has difficulties in determining the value of individual protocols because of a lack of market fundamentals. This leads to a bubble as the market can't effectively value that potential and that bubble still has much further to go, potentially into the trillions if it is to come close to Dot Com which was about infinitely inferior and unproven technology.

So whilst there are great opportunities out there to invest in the next generation of the web, there is also a high volume of low quality projects in a generally opaque market dominated primarily by momentum trading and speculation. Ultimately it's not that sustainable or ideal.

For investors, it is key to identify strong projects with genuine long-term potential. Fundamentally, though, the ability through blockchain technology to “tokenize” assets – that is, to create digitally scarce tokens in respect of any asset class – means that the rise in tokenized, fractionalized investments is something that is here to stay.

A key benefit in most of this stuff is open source which means more value can be retained as code and community can be recycled and potentially replicated in parallel. This makes the asset much more valuable than tokens in equities with 90% fail rates – where all IP and know how is lost forever.

NA: I feel very strongly that if equity investors do not begin to adapt they will risk losing ground to a paradigm in fundraising that has already shifted. No matter how over-inflated the market is today, the shift is what is important. Blockchain business models seeking funding are turning to the crowd in the form of ICOs/token sales. We already have a maturing class of ICO-centric investment advisors, for example Newtown Partners and Pantera Capital – the latter is raising a USD 100 million fund focussed on ICOs of blockchain-based companies.

Then there is a new emerging class of innovative investors – family offices, hedge funds and corporate venture vehicles – who understand the opportunity and need for exposure to the emerging technologies of crypto and blockchain, but lack the technology understanding. This market is growing and is naturally fuelled by the fact that tokenized business models force the convergence of a new kind of financial acumen and deep technology understanding. This, along with a new type of early stage investor – ‘the crypto angel’ – is creating a pincer move on the traditional equity investors.

Does the divergent regulatory landscape for ICOs, with national regulators taking different approaches, impact the profile of investors participating in ICOs, and their appeal to more traditional equity investors?

JB: The regulatory landscape definitely has an impact on both issuers and investors. People are getting a lot of conflicting advice. Essentially we're talking about global offerings, and how they need to fit within localized securities laws.

The regulatory position is definitely keeping lots of VCs on the sidelines, as they and their limited partners cautiously watch developments. In the meantime, there is a new investor class comprising individuals and entrepreneurs who have made significant returns in bitcoin and ether in recent years.

They are coming together via social media channels, forming informal syndicates, and pooling diligence on ICO/token sale opportunities. As they are deploying their own capital, they can transact the equivalent of between USD 1 to 10 million in a matter of days. Even if VCs can get comfortable with the regulatory risks, they risk missing out on opportunities to these more nimble collectives.

I don't see the US becoming the home of ICOs given the regulator's stance and the increasing fragmentation of Silicon Valley. Many of the large ICOs are coming out of Europe. This could be a huge opportunity for the UK post-Brexit. It has been a leader in alternative finance and angel investing. It has a creative and progressive regulator, a thriving capital market industry and the professional services wrap-around you need.

CTO: Absolutely – the approach of regulators will undoubtedly shape and drive the profile of investors. We are seeing that with the rise of ICOs in jurisdictions such as Singapore and Switzerland which are seen as more ICO-friendly. Currently, we have investors who are early adopters, i.e., they understand crypto and see the potential. Then you have those in this investment community who completely reject the model. I think going forward you will see less extremism. Fans of the model will see its limitations for certain businesses/ models. And those who currently believe it to be criminal activity will have to eat their words as successful ICOs frame this as a long-term alternative to raising capital.

NA: Ultimately, jurisdictions that favor the ICO model as an economic development opportunity will benefit. They will be able to create a network effect of the best minds and resources moving into those territories. Any investor, especially a professional investor, would want to see their ICO portfolio thrive in such conditions. It's important to choose the right jurisdiction for your ICO as the regulatory burden can weigh down on a young company and the lack of regulatory clarity fuels confusion and costs.

To what extent are ICOs a start-up game? Do you think that during 2018 we will see more established companies (and companies from outside the blockchain sector) seek to raise investment via an ICO, rather than through traditional equity fundraising?

CTO: ICOs are in no way tied to start-ups, other than the fact that they unlock capital and are operating in the crypto space. In many ways you could connect them to a bond – one of the oldest financial instruments – it just depends on the role of the token and how they operate within the business model. I think it is naive to think that they are the home of “start-ups” which are deeply engaged in the crypto and blockchain ecosystem. If anything, the role they could play for an established firm with a clear platform/base of users and digital economy is far greater.

We have seen Kodak, Entropia Universe and some sizeable firms consider an ICO as a feasible option. The question is was that all just for hype? I personally think that you will see bigger firms start to consider ICOs, but this depends on the tone in the market given that these organizations tend to be heavily influenced by the established advisors when it comes to capital events. How open-minded are they to understanding the potential for an ICO and recommending it to their clients?

NA: This is not a start-up game, agreed. It could be a massive opportunity for a mature company to re-engineer their business model and their commercial scale and value proposition. But the key here is there has to be a viable token model which represents onward consumptive and speculative value for it to be a success. That in turn implies that the technology strategy has to be based on blockchain.

JB: I think ultimately anything that can be tokenized, will be tokenized (and by a range of companies). The structure of ICOs may change as the regulatory environment develops, but the essential elements of tokenization and fractionalization are how the key technologies of the next stage of the web will be financed.

“ In many ways you could connect them to a bond – one of the oldest financial instruments – it just depends on the role of the token and how they operate within the business model.

Howden

Playing the risk



Joe O'Brien
Managing Director
Howden

Joe founded and leads Howden M&A Limited. Over the past six years, Joe has completed placements on over 200 deals, structuring a range of insurance solutions for private equity and real estate clients. He established Howden's German M&A office, playing an active role in developing M&A insurance policy wordings in the region. Joe has a degree in Biological Sciences from the University of Oxford.



Caroline Rowlands
Associate Director, Head Of
Operational/Private Equity, Solicitor
Howden

Caroline is an associate director (solicitor) in the Howden M&A team. Prior to joining Howden, she qualified as a solicitor at Freshfields Bruckhaus Deringer, where she focused on corporate transactions in the E&R sector and also worked in house at AIG, sitting within their M&A insurance team. Having studied and worked in France, Caroline has a working knowledge of French. She has a BA in Law from the University of Cambridge.

Surging demand for W&I insurance in Europe has led to a host of developments in the space, including new providers of coverage, more competitive pricing and product enhancements that make it more attractive than ever before to buyers and sellers in the M&A space. **Joe O'Brien and Caroline Rowlands** of Howden outline some of the key trends and developments in managing M&A risk.

What have you been seeing in the W&I market generally over the last year?

Against a backdrop of relatively stagnant M&A volumes, last year saw the demand for W&I insurance continue its upward trajectory. This dynamic is driven by a broader awareness of the product and its increased importance in M&A processes. Funds, corporates and advisory teams now consider W&I insurance as part of their strategic tool kit, permitting clean exits on the sell-side and favorable limitations packages on the buy-side (irrespective of the underlying SPA position).

A by-product of this strong growth in demand is the influx of new insurers into the market. Increased competition has led to downward pressure on pricing and retentions. Taking the UK as an example, pricing for operational transactions is now typically in the region of 0.9%-1.3% of the policy limit, while retentions are now standardly 0.3-0.5% of the enterprise value. A number of new entrants to the W&I market are specifically targeting small-cap transactions, implementing streamlined underwriting processes and reducing the traditional "minimum premium" threshold, resulting in W&I insurance becoming cost effective for deals less than EUR 50 million. This is often of particular interest to private equity portfolio companies looking at bolt-on acquisitions.

From a claims perspective, Howden M&A received claims notifications on c. 12% of policies bound across 2017. These notifications have related primarily to intellectual property, tax and financial statements.

What new developments are you seeing in the market?

Enhanced cover

In addition to falling premiums, competition in the market has led to insurers offering an increased array of policy enhancements. It is now common to see insurers agree to (i) disregard blanket knowledge qualifiers contained in the SPA, (ii) provide synthetic tax indemnities directly to the insured; and (iii) broaden the loss definition via the policy, irrespective of what is outlined in the underlying SPA. Insurers have also started to consider disregarding the application of the due diligence and data room disclosure exclusion with respect to certain low-risk tax matters (known as “affirmative coverage”). Such enhancements typically attract an additional premium of 10%-20% of the base premium. While it still remains less common, there are an increasing number of insurers who are willing to offer ‘US-style’ enhancements, principally non-disclosure of the data room and/or due diligence reports. This more US-style coverage typically attracts an additional premium of 10%-30% of the base premium.

Nil recourse

As the sellers’ market continues to thrive, we have seen more and more sellers take an aggressive stance with respect to liability under the SPA – capping their liability at GBP 1/EUR 1. While this approach is typically only successful in highly competitive auction processes, insurers are now broadly comfortable with this dynamic provided that they can see that the sellers/management have conducted a thorough disclosure process and negotiated the warranty suite as if liability was retained. Where buyers push back on nil seller recourse structures, we have seen sellers/management agree to stand behind the warranties to a limited extent subject to all of the warranties being qualified by knowledge. Buyers then turn to the W&I Policy to disregard this blanket knowledge qualification.

Stapling

The last 12 months has also seen a sustained increase in the number of sellers (both private equity and corporate) ‘stapling’ insurance to their disposals,

especially in the context of competitive auction processes. In such cases, the client engages an insurer early on in the sale process, and proceeds to negotiate a draft policy on the basis of the vendor due diligence. Regardless as to whether the policy is ultimately taken out by a successful bidder, it can be used by the seller as a powerful negotiating tool to limit its liability under the SPA. The insurance market is now large enough to enable brokers and insurers to set up confidential ‘deal trees’ to work with several bidders simultaneously ensuring that the policy will be finalized in time for final bids.

How does W&I insurance vary across the major European markets?

While the W&I insurance market has matured rapidly over recent years, differences remain in terms of usage across major European jurisdictions. While differences in pricing across jurisdictions has narrowed, variations in both usage of the product and coverage positions remain evident. The below table summarizes the key positions in each jurisdiction.

Are there any supplemental products which can be used to plug the usual gaps in coverage?


In the last year we have seen a continued rise in the usage of M&A insurance tools for identified matters. These include specific tax risk, legal indemnity, environmental and litigation policies. Such policies can be taken out as either standalone policies or incorporated into W&I policies, the latter is typically more cost effective but is only available for lower risk matters. Of these products, specific tax risk policies have experienced the most rapid growth, with both brokers and insurers hiring dedicated tax professionals. Enhanced competition has seen the appetite of the insurance market broaden to include “medium” and certain “high” risk tax issues as well as cover for risks located in jurisdictions such as Spain, Portugal and Italy where historically tax risk insurance was extremely challenging to secure.

We expect this trend to continue over the next 12 months and beyond, with sophisticated brokers and underwriters investing in innovation, with a view to creating new insurance products to address client needs.

Baker McKenzie Global Private Equity Deals List, 1 July 2016 - 30 June 2018

A summary of some of the recent key private equity deals on which we have advised.

Party for which Baker McKenzie acted on the deal is in **bold**.

Target	Transaction Description	Deal Size	Geography	Region
 Consumer Goods & Retail				
American & Efird	Advised on the non-US aspects of Platinum Equity's acquisition of American & Efird.	Confidential	UK, China, Germany, Mexico	EMEA
APIIT Education Group	Advised Ekuiti Nasional Berhad on the sale of APIIT Education Group to KV Asia Capital and the management team.	Confidential	Malaysia	Asia Pacific
Bellsolà	Advised Landon Investments on the sale of Bellsolà to Ardian.	Confidential	Spain	EMEA
Betterware de Mexico	Advised Betterware de Mexico on its corporate restructuring.	Small	Mexico	Americas
Biletal İç ve Dış Ticaret A.Ş.	Advised the Abraaj Group on its acquisition of a minority stake in of Biletal İç ve Dış Ticaret A.Ş.	Confidential	Turkey	EMEA
Brakes Group	Advised Bain Capital and Brake Bros on the sale of the Brakes Group to Sysco Corporation.	Large	UK, US	EMEA
budgetplaces.com	Advised Palamon Capital Partners on the sale of budgetplaces.com to Edreams Odigeo.	Confidential	Spain, UK	EMEA
Casual Beer & Food, S.A.U.	Advised Abac Solutions SICAR on the acquisition of Casual Beer & Food, S.A.U. by Eating Group Ventures.	Confidential	Spain	EMEA
CC Friedrich Holdings, Inc.	Advised Monomoy Capital Partners on its acquisition of CC Friedrich Holdings, Inc.	Upper-mid	Singapore, Indonesia, Cayman Islands, US	Asia Pacific
DeLille Cellars	Advised Bacchus Capital Management on its investment in DeLille Cellars.	Confidential	US	Americas


Deal size

Small = USD 50m or less


Lower-mid = USD 50m - USD 250m

Upper-mid = USD 250m - USD 500m

Large = USD 500m +

Target	Transaction Description	Deal Size	Geography	Region
 Consumer Goods & Retail (continued)				
DXN Holdings	Advised KV Asia Capital on the acquisition of an equity stake in DXN Holdings.	Confidential	Malaysia, Singapore	Asia Pacific
East Balt Bakeries	Advised One Equity Partners on the sale of East Balt Bakeries to Grupo Bimbo.	Large	US, Mexico	Americas
Eco-Stim Energy Solutions	Advised Eco-Stim Energy Solutions on the recapitalization of Fir Tree Partners, entering into a deal with Albright Capital Management LLC.	Small	US	Americas
Gimborn	Advised Hillhouse Capital Group on the acquisition of Gimborn from Czech private equity firm Penta Investments.	Confidential	Germany	EMEA
Guzmán Gastronomía	Advised on Miura Private Equity's divestiture in Guzmán Gastronomía to Bidcorp.	Lower-mid	South Africa, Spain	EMEA
haustierkost.de	Advised Serendipity on the acquisition of a majority stake in Visionistas GmbH."	Confidential	Germany, Sweden	EMEA
Ideal Standard	Advised Ideal Standard on the refinancing and acquisition by Anchorage and CVC Credit Partners.	Confidential	Pan-European	EMEA
Intertoys	Advised Blokker Holding on the sale of Intertoys to Alteri Investors.	Confidential	Netherlands, UK	EMEA
INTI University and Colleges	Advised Affinity Equity Partners on its acquisition of INTI University and Colleges from Laureate Education, Inc.	Lower-mid	Malaysia	Asia Pacific
IPC Group	Advised Tennant Company on the acquisition of IPC Group from Ambienta.	Large	US, Brazil, Italy, UK	Americas
IQI	Advised Egeria on the acquisition of IQI.	Confidential	Netherlands	EMEA
Klaussner Furniture Industries	Advised Monomoy Capital Partners on the acquisition of Klaussner Home Furnishings.	Confidential	US	Americas
Kofola ČeskoSlovensko a.s.	Advised KSM Investment S.A. on its acquisition of minority shareholding in Kofola ČeskoSlovensko a.s. from Enterprise Investors.	Confidential	Czech Republic	EMEA
Leen Bakker	Advised Blokker Holding on the sale of Leen Bakker to Gilde Equity Management.	Confidential	Netherlands	EMEA
Madriral Family Winery	Advised Bacchus Capital Management on its investment in Madriral Family Winery.	Confidential	US	Americas
Mavi Giyim Ticaret ve Sanayi A.Ş.	Advised Turkven Private Equity on the sale of its shares in Mavi Giyim Ticaret ve Sanayi A.Ş.	Confidential	Turkey	EMEA

Target	Transaction Description	Deal Size	Geography	Region
McDonald's	Advised McDonald's corporation on its divestment of operations in Sweden, Denmark, Finland and Norway to Guy Hands, the founder of Terra Firma.	Confidential	US, Sweden, Denmark, Finland and Norway	EMEA
OfficeMax Group	Advised Platinum Equity on the acquisition of the OfficeMax Group.	Confidential	Australia, New Zealand, US	Asia Pacific
Panther Creek Cellars	Advised Bacchus Capital Management on its investment in Panther Creek Cellars.	Confidential	US	Americas
Ritmos Cativantes	Advised MEFIC Capital on the acquisition of Ritmos Cativantes from Ritmos Partners Ltd.	Confidential	Luxembourg, Portugal, Spain	EMEA
Rydells Försäljning AB and S-Blommor i Stockholm AB	Advised Accent Equity Partners on the acquisition of Rydells Försäljning AB and S-Blommor i Stockholm AB.	Small	Sweden	EMEA
Selecta Group	Advised Selecta Group on its sale of operations in Estonia, Latvia and Lithuania to Baltcap.	Small	Estonia, Latvia, Lithuania, Switzerland	EMEA
Staples Australia and New Zealand	Advised Platinum Equity on its agreement to acquire Staples Australia and New Zealand from their US parent, Staples Inc.	Lower-mid	Australia	Asia Pacific
Taza Food Company	Advised Ashmore on the acquisition of a majority stake in Taza Food Company.	Small	Saudi Arabia	EMEA
Tekman Books	Advised on Miura Private Equity's acquisition of a majority stake of the Spanish company Tekman Books.	Confidential	Spain	EMEA
Tenby Education Group	Advised Ekuiti Nasional Berhad on the sale of its Tenby Education Group to International Schools Partnership.	Confidential	Malaysia	Asia Pacific
Tigerlily	Advised ASX-listed Billabong International Limited on the sale of Tigerlily to Crescent Capital.	Small	Australia	Asia Pacific
Turkent Gıda ve Turizm Sanayi ve Ticaret Anonim Şirketi	Advised Yum! Restaurants International Management LLC on the sale of Turkent Gıda ve Turizm Sanayi ve Ticaret Anonim Şirketi to the Abraaj Group.	Confidential	Turkey	EMEA
Twister Holding AB	Advised Diversey , a portfolio company of Bain Capital, on the acquisition of the Swedish company Twister Holding AB from Polaris Private Equity.	Confidential	Sweden	EMEA

Target	Transaction Description	Deal Size	Geography	Region
 Consumer Goods & Retail (continued)				
United Bakeries	Advised Moulins de Kleinbettingen S.A. in connection with the takeover of United Bakeries.	Confidential	Czech Republic, Luxembourg	EMEA
Vestiaire Collective	Advised Vitruvian on its fundraising for Vestiaire Collective.	Lower-mid	France	EMEA
VinaCapital & Warburg Pincus Joint Venture	Advised VinaCapital on its hospitality joint venture project with Warburg Pincus.	Upper-mid	Vietnam	Asia Pacific
Zenith Hygiene Group plc	Advised Bain Capital on its acquisition of Zenith Hygiene Group plc through its portfolio company Diversey.	Lower-mid	UK	EMEA


Energy, Mining & Infrastructure

A wind farm of a project development company of the BVT Group	Advised Commerz Real Kapitalverwaltungsgesellschaft on its acquisition of a wind farm the BVT Group.	Confidential	Germany	EMEA
Buriram Energy Co.,Ltd	Advised the Buriram Sugar Group Power Plant Infrastructure Fund on the sale of biomass power plants from Buriram Energy Co.,Ltd and Buriram Power Co.,Ltd.	Lower-mid	Thailand	Asia Pacific
Contenur	Advised both Demeter Partners and Miura Private Equity on the sale of Contenur to Acon Investments.	Lower-mid	Spain, US	EMEA
Enovos	Advised RWE and E.ON on their joint sale of their minority stakes in Enovos.	Confidential	Germany, Luxembourg	EMEA
Gas Natural S.A.E.S.P.	Advised Brookfield Infrastructure Group on the acquisition of a 591% stake in Gas Natural S.A.E.S.P.	Large	Colombia	Americas
Gravity Midstream Corpus Christi	Advised EnCap Flatrock Midstream on the sale of Gravity Midstream Corpus Christi to Pin Oak.	Confidential	US	Americas
HG Power Transmission Sdn. Bhd.	Advised Navis Capital Partners on the disposal of its stake in HG Power Transmission Sdn. Bhd. to Rohas Tecnic Berhad.	Small	Malaysia	Asia Pacific
IslaLink	Advised Fiera Infrastructure on acquisition of IslaLink from EQT Infrastructure.	Lower-mid	Spain, US	EMEA


Target	Transaction Description	Deal Size	Geography	Region
Konsortium Lebuhraya Utara-Timur (KL) Sdn. Bhd.	Advised Employees Provident Fund on its acquisition of Konsortium Lebuhraya Utara-Timur (KL) Sdn. Bhd. from Nuzen Corporation Sdn. Bhd.	Upper-mid	Malaysia	Asia Pacific
Natgas Querétaro	Advised Natgas Querétaro on an investment by Northgate Capital through its Mexico fund (CKD).	Small	Mexico	Americas
National Grid	Advised Macquarie on its acquisition, of a 61% stake in the National Grid's gas arm.	Large	UK	EMEA
Tesar S.r.l. and Elettrostandard Polska Sp. z oo.	Advised R&S Group on the acquisition of Tesar S.r.l. and Elettrostandard Polska Sp. z oo.	Confidential	Italy, Poland	EMEA
Thames Water	Advised Macquarie on the sale of its stake in Thames Water to OMERS.	Confidential	UK, Kuwait	EMEA
Various targets	Advised American Capital Ltd on its acquisition of an Indonesian company developing mini-hydro electricity projects in Indonesia.	Confidential	Indonesia, Singapore	Asia Pacific
Ventos de São Clemente and Ventos de Tianguá	Advised Casa dos Ventos on the sale of two Brazilian wind farms to Actis through its wind subsidiary Echoenergia.	Confidential	Brazil	Americas


Financial Institutions

Abacus Gaw Investment Trust	Advised Gaw Capital Partners on the formation of Abacus Gaw Investment Trust, a joint venture platform with Abacus Property Group.	Lower-mid	Australia, Cayman Islands, Hong Kong	Asia Pacific
Afcarme	Assisted First Merchant Bank Limited on with FMB Capital Holdings Limited's acquisition of Barclays Bank PLC's interest in Afcarme.	Small	Zimbabwe, Malawi, UK, Mauritius	EMEA
Alpha Data Centre Fund	Advised the Canada Pension Plan Investment Board (CPPIB) on its investment in Alpha Data Centre Fund.	Upper-mid	Hong Kong, Singapore, Canada	Asia Pacific
Alpha Private Equity Fund 7	Advised Alpha Private Equity on the formation of Alpha Private Equity Fund 7.	Large	Pan-European	EMEA
Anlagestiftung der Migros-Pensionskasse Immobilien	Advised Migros-Pensionskasse (MPK) on the transfer of its Swiss real estate portfolio to Anlagestiftung der Migros-Pensionskasse Immobilien.	Large	Switzerland	EMEA
Armis	Advised Elaia Partners and Iris Capital on their fundraising for Armis.	Confidential	France	EMEA


Target	Transaction Description	Deal Size	Geography	Region
 Financial Institutions (continued)				
Bambora	Advised Nordic Capital on the sale of Bambora to Ingenico Group.	Large	Sweden, Belgium	EMEA
Black Toro Capital	Advised Black Toro Capital on the restructuring of its existing portfolio and the creation of a successor fund to further raise and deploy capital in Spain	Confidential	Luxembourg, Spain	EMEA
Bureau van Dijk	Advised EQT VI on the sale of Bureau van Dijk to Moody's.	Large	Belgium, Netherlands	EMEA
CB Egitim Hizmetleri A.S	Advised the Carlyle Group on the sale of its stake in CB Egitim Hizmetleri A.S. to Yucel Family.	Confidential	Turkey	EMEA
Challenger Deep	Advised Global Advisors on a fundraising for Challenger Deep.	Confidential	France, UK	EMEA
CPPIB, Ivanhoe Cambridge and LOGOS partnership	Advised the Canada Pension Plan Investment Board on its partnership with Ivanhoe Cambridge and LOGOS to develop and acquire logistics properties in Singapore and Indonesia.	Large	Singapore, Indonesia, US	Asia Pacific
Eko Faktoring A.Ş.	Advised a private equity firm on the acquisition of Eko Faktoring A.Ş. from Bancroft.	Confidential	Turkey	EMEA
Elix Vintage Residencial Socimi	Advised Grupo Elix on the incorporation of a joint venture, Elix Vintage Residencial Socimi, by several national and international funds, including KKR, Altamar and the Deutsche Finance Group.	Lower-mid	Spain	EMEA
Exchange Tower, Bangkok	Advised City Developments Ltd. on the sale of Exchange Tower in Bangkok to the TPRIME REIT.	Lower-mid	Thailand	Asia Pacific
Gateway Real Estate Fund V, L.P.	Advised Gaw Capital Partners on the formation and first closing for their fifth flagship private equity real estate fund — Gateway Real Estate Fund V, L.P.	Large	Hong Kong, Cayman Islands, US	Asia Pacific
Hannover Leasing Group	Advised CORESTATE Capital Holding on the acquisition of 94.9% of the shares in the Hannover Leasing Group.	Confidential	Germany	EMEA
Hurks Group	Advised HB Capital and Opportunity Partners on the acquisition of the Hurks Group.	Confidential	Netherlands	EMEA
InVesting B.V.	Advised Arrow Global on the acquisition of InVesting B.V. from HAL.	Confidential	Belgium, Netherlands, Portugal, UK	EMEA
JPW Industries	Advised Gamut Capital Management on the purchase of JPW Industries from Tenex Capital Partners.	Upper-mid	Taiwan	Asia Pacific


Target	Transaction Description	Deal Size	Geography	Region
Klarna	Advised Visa on its investment agreement with Klarna.	Confidential	Sweden, US	EMEA
Linxo	Advised Crédit Agricole and its subsidiary, the Crédit Agricole Innovation and Research Fund (FIRECA), as part of its new investment in fintech Linxo.	Confidential	France	EMEA
LT Group	Advised Ufenau Capital Partners on the TEX Group's acquisition of LT Group (LT BahnTechnik GmbH and LT SchienenTechnik GmbH).	Confidential	Germany	EMEA
Midaxo	Advised Idinvest Partners on a Series B fundraising for Midaxo.	Confidential	France, Finland	EMEA
Pioneer Investments	Advised Amundi on its acquisition of Pioneer Investments from UniCredit SpA.	Large	Italy	EMEA
Re-Vive	Advised Re-Vive on the structuring and establishment of a new private equity fund investing in brownfield projects.	Confidential	Belgium	EMEA
Spring REIT	Advised Spring REIT on its acquisition of a portfolio of 84 properties in the UK from a private equity real estate fund.	Lower-mid	UK	EMEA
Tesch Inkasso	Advised GFKL Lowell Group on the acquisition of Tesch Inkasso from Avedon Capital Partners.	Confidential	Germany	EMEA
Tinubu Square	Advised investment fund Long Arc Capital on its investment in Tinubu Square.	Lower-mid	France	EMEA
Various targets	Advised Finstar on a number of venture capital transactions with fintech companies in Eastern Europe and Asia.	Confidential	Pan-European and Asian	EMEA
Verdite International Inc.	Advised AT Capital on the sale of its shares in Verdite International Inc. to Wadern Associates Limited.	Confidential	Turkey	EMEA

 Healthcare				
Alpha Medical	Advised Apax Partners on Unilabs' acquisition of Alpha Medical from Mid Europa Partners.	Confidential	Czech Republic, Slovakia, UK	EMEA
Astorg	Advised Echosens on Astorg's acquisition of a minority stake through an LBO.	Small	France	EMEA
Biolin Scientific AB	Advised Ratos AB on the divestment of Biolin Scientific AB to AddLife Development AB.	Confidential	Sweden	EMEA

Target	Transaction Description	Deal Size	Geography	Region
 Healthcare (continued)				
Bloom Burton Healthcare Lending Trust II	Advised Bloom Burton Healthcare Lending Trust II on the establishment of the trust as a non-redeemable investment fund and financing led by GMP Securities LP.	Confidential	US	Americas
Bushu Pharmaceuticals Holdings	Advised Baring Asia Private Equity Fund V on the proposed sale of Bushu Pharmaceuticals Holdings to one purchaser by way of auction sale process.	Large	Japan, US	Asia Pacific
CatalYm GmbH	Advised Forbion Capital Partners on the Series A financing of CatalYm GmbH.	Small	Germany	EMEA
Confidential	Advised CG Health Ventures on its investment in a venture financing round of a new biotech company.	Confidential	Spain	EMEA
Doctolib	Advised Eurazeo Croissance on its Series C investment in Doctolib.	Small	France	EMEA
Doktorhuus Holding AG	Advised Ufenau Capital Partners on the acquisition of Doktorhuus Holding AG.	Confidential	Switzerland	EMEA
FEops NV	Advised Valiance on leading a substantial new financing round of FEops NV.	Small	Luxembourg, Belgium	EMEA
GBA Gesellschaft für Bioanalytik	Advised Pagoda Investment on the acquisition of GBA Gesellschaft für Bioanalytik from Aduiva Capital.	Confidential	Austria, Germany	EMEA
Ingesport Health & Spa Consulting SL	Advised Torreal on Torreal and Mutua Madrileña's acquisition of Ingesport Health & Spa Consulting SL.	Confidential	Spain	EMEA
Invent Farma	Advised Invent Farma on its acquisition by Apax Partners.	Upper-mid	Iceland, UK, Luxembourg, Spain	EMEA
MyCartis NV	Advised MyCartis NV on its fundraising.	Small	Belgium	EMEA
Neovacs	Advised Neovacs on fundraising in the form of convertible bonds and a private placement.	Small	France	EMEA
Newpharma	Advised Korys Investments NV and Etablissements Franz Colruyt NV on the acquisition of shares in the Newpharma group.	Confidential	Belgium	EMEA
Oystershell NV	Advised Oystershell NV and its selling shareholders on the sale to Gilde Buy Out.	Confidential	Belgium	EMEA
PAION AG	Advised Cosmo Pharmaceuticals NV on its subsidiary Granell Strategic Investment Fund Limited's investment in PAION AG.	Small	Germany	EMEA
PharmaFluidics NV	Advised a consortium consisting of three parties (Heran BVBA, RMM NV and FPIM/SFPI NV/SA) on an investment in PharmaFluidics NV.	Small	Belgium	EMEA


Target	Transaction Description	Deal Size	Geography	Region
physiovia	Advised Temedica GmbH on the planned financing round for the Munich start-up physiovia.	Confidential	Germany	EMEA
ReActive Robotics GmbH	Advised ReActive Robotics GmbH on its second financing round.	Confidential	Germany	EMEA
Santédiscout	Advised Ardian Growth on its investment in Santédiscout.	Confidential	France	EMEA
SARquavitae	Advised Palamon Capital Partners and the rest of SARquavitae shareholders on the sale of the company to PAI Partners.	Large	Spain, France	EMEA
Sophion Bioscience	Advised Ratos AB (publ) on its divestment of Sophion Bioscience A/S to management buyers.	Small	Denmark, Sweden	EMEA
Spineart	Advised Gimv on its acquisition of a stake in the share capital of Spineart.	Small	Belgium, Switzerland, Germany, France, Italy, US	EMEA
swiss smile	Advised EQT Midmarket Fund on the sale of its stake in the Swiss dental chain swiss smile to Jacobs Holdings AG.	Confidential	Switzerland	EMEA
TDC A/S	Advised Macquarie on its takeover bid for the entire issued share capital in TDC A/S.	Large	Denmark	EMEA
Tokuda and City Hospital Groups	Advised Acbadem on the sale of 15% shares in Tokuda and City Hospital Groups to IFC.	Confidential	Turkey	EMEA
Unidental	Advised the owner of Unidental on the sale of the company to Portobello.	Confidential	Spain	EMEA

 Industrials, Manufacturing and Transport				
Aislamientos Suaval	Advised Aislamientos Suaval on the sale of a minority interest to Oquendo Capital and subsequent financing.	Confidential	Spain	EMEA
Altendorf Group	Advised Avedon Capital Partners on the acquisition of Altendorf Group.	Confidential	Germany	EMEA
An Austrian private equity fund	Advised GK Grünenfelder AG on its acquisition of 100% of the equity interests from an Austrian private equity fund.	Confidential	Austria, Switzerland	EMEA
Anchor Glass	Advised CVC Capital Partners and its consortium partner, B.A. Glass B.V. on their acquisition of Anchor Glass.	Large	US	Americas

Target	Transaction Description	Deal Size	Geography	Region
 Industrials, Manufacturing and Transport (continued)				
Autodis	Advised Bain Capital on the sale of the Polish operations of Autodis to LKQ.	Confidential	Poland	EMEA
Bandırma Vitaminli Yem Sanayi A.Ş.	Advised BRF S.A. on the acquisition of a majority equity stake in Bandırma Vitaminli Yem Sanayi A.Ş.	Upper-mid	Turkey, Brazil	EMEA
Billund Aquakulturservice A/S	Advised Broodstock Capital on the acquisition of a major share in Billund Aquakulturservice A/S.	Confidential	Chile, Norway	Americas
Brand Factory Group AB	Advised Scope Growth II LP on the sale of Brand Factory Group AB with subsidiaries to Ineko Group AB.	Confidential	Sweden	EMEA
Chromalox, Inc.	Advised Spirax-Sarco Engineering plc on the execution of a merger agreement to acquire Chromalox, Inc. from Irving Place Capital.	Large	US, UK	Americas
Cleverciti Systems GmbH	Advised Cleverciti Systems GmbH on a growth funding round.	Small	Germany	EMEA
Confidential	Advised Advent International on the acquisition of a Brazilian distributor of auto parts and accessories by Grupo Fortbras.	Confidential	Brazil	Americas
Consolidated Aviation Systems	Advised Platinum Equity on Worldwide Flight Services' acquisition of Consolidated Aviation Systems from ICV Partners.	Confidential	UK	EMEA
Convargo	Advised InVenture and Earlybird on Convargo's fundraising.	Small	France	EMEA
Corvara	Advised Accent Equity Partners on the divestment of Corvara to Veolia Nordics.	Confidential	Sweden	EMEA
Davex Sdn Bhd	Advised Alliance Holding Company Limited on its disposal of Davex Sdn Bhd to Ekuiti Nasional Berhad.	Small	Malaysia	Asia Pacific
Drukkerij Zwart	Advised Wagram Equity Partners on the sale of Drukkerij Zwart to Schur Flexibles.	Confidential	Netherlands	EMEA
duagon AG	Advised listed Deutsche Beteiligungs AG on the acquisition of all issued shares in Swiss-headquartered duagon AG.	Lower-mid	Switzerland, Germany	EMEA
Eco Log Sweden AB	Advised Accent Equity Partners on its acquisition of Eco Log Sweden AB.	Small	Sweden	EMEA

Target	Transaction Description	Deal Size	Geography	Region
Elastorsa	Advised Elastorsa on its acquisition of Corpfm Capital.	Confidential	Spain	EMEA
Elektro-Startups e.Go Mobile AG	Advised Elektro-Startups e.Go Mobile AG on three financial rounds with ZF Friedrichshafen.	Confidential	Germany	EMEA
Euromaint	Advised Ratos AB (publ) on its divestment of Euromaint to funds advised by Orlando Management.	Lower-mid	Sweden, Germany	EMEA
FKS Food and Agri Pte. Ltd.	Advised FKS Group on Proterra Investment Partners' investment in FKS Food and Agri Pte. Ltd., the food and agriculture arm of FKS.	Lower-mid	Singapore	Asia Pacific
GPA Global	Advised EQT on certain aspects of its acquisition of GPA Global group.	Confidential	China, Hong Kong, US	Asia Pacific
HTC Group AB	Advised Husqvarna AB on the acquisition of the Floor Grinding Solutions Division of HTC Group AB from Polaris Private Equity.	Confidential	Sweden, Denmark	EMEA
International Tractors	Advised Yanmar Holdings on its acquisition of an 18% stake in International Tractors.	Lower-mid	India, Japan	Asia Pacific
KVK Holding	Advised Sika on its acquisition of KVK Holding from private equity firm Arx Equity Partners.	Small	Czech Republic	EMEA
Menorquina	Advised Black Toro Capital II on the investment in Farggi to acquire Menorquina.	Lower-mid	US, Spain	Americas
Mexican industrial parks	Advised Hines Investments on the acquisition of industrial parks in Mexico.	Large	Mexico, US, Canada	Americas
MNG Kargo	Advised Turkven on the acquisition of a 100% stake in MNG Kargo Yurtiçi ve Yurtdışı Taşımacılık A.Ş.	Lower-mid	Netherlands, Turkey	EMEA
Netafim Group	Advised Temasek on its bid for an interest in the Netafim group.	Confidential	Argentina, Australia, Brazil, Chile, China, Netherlands, Peru, Spain, South Africa, Turkey, US, UK	Americas
Netlog Lojistik Hizmetleri A.Ş.	Advised the Abraaj Group on the acquisition of a 24% stake in Netlog Lojistik Hizmetleri A.Ş.	Lower-mid	Turkey	EMEA
Partner Logistics Group	Advised ABN AMRO and Royal De Heus on the sale of Partner Logistics Group to Lineage/Bay Grove Capital.	Confidential	Netherlands	EMEA

Target	Transaction Description	Deal Size	Geography	Region
 Industrials, Manufacturing and Transport (continued)				
Scandlines	Advised funds managed by First State Investments and Hermes Investment Management on the acquisition of ferry operator Scandlines from 3i Group.	Large	Germany, Luxembourg	EMEA
SMB Group	Advised Patrimonium Private Equity on its sale of SMB Group to Marle International SAS.	Confidential	Switzerland, France	EMEA
Taiheiyō Seiki Holdings	Advised J-STAR on the sale of Taiheiyō Seiki Holdings shares.	Confidential	Japan	Asia Pacific
Thor Shipping & Transport AB.	Advised Accent Equity Partners on the acquisition of Thor Shipping & Transport AB.	Small	Sweden, Netherlands, UK	EMEA
TitanX	Advised Tata Autocomp Systems on the acquisition of TitanX from EQT.	Confidential	Sweden	EMEA
Tommy Nordbergh Åkeri	Advised Accent Equity Partners on its acquisition of Tommy Nordbergh Åkeri.	Confidential	Sweden	EMEA
TPC Holding B.V.	Advised Wega Invest B.V. on the sale of TPC Holding B.V. to Zhejiang Transfar Co. Ltd.	Confidential	Netherlands	EMEA
U.N. Ro-Ro.	Advised DFDS on the acquisition of 98.8% of the shares of U.N. Ro-Ro.	Large	Denmark, Turkey	EMEA
Various funds	Advised Daimler on multiple investments in leading venture capital funds throughout Europe and in the US.	Various	US and Pan-European	Americas
Xella Group	Advised an affiliate of Lone Star on its acquisition of Xella Group from PAI Partners and investment funds managed by Goldman Sachs.	Large	Germany, US	EMEA

Target	Transaction Description	Deal Size	Geography	Region
 Technology, Media & Telecoms				
Abry Partners	Advised BSO in relation to an Abry Partners fundraising.	Confidential	France	EMEA
albis-elcon systems Germany gmbH	Advised CCS Group on the acquisition of albis-elcon systems Germany gmbH and lectron electronic gmbH.	Confidential	Germany, Switzerland	EMEA
Amtek Tekfor	Advised Monomoy Capital Partners on the acquisition of the German drive specialist Amtek Tekfor.	Confidential	Germany	EMEA
Brasil Aceleradora de Start-Ups	Advised Monsanto on its investment in Brasil Aceleradora de Start-Ups.	Small	Brazil	Americas
Containerchain Group	Advised CHAMP Private Equity on its acquisition of a 50% interest in the Containerchain Group.	Lower-mid	Malaysia, Singapore, Hong Kong, Thailand	Asia Pacific
Content Square	Advised Eurazeo Croissance in the Series B fundraising of software company Content Square.	Small	France, US	EMEA
Cultura Colectiva	Advised Vicasoen (Cultura Colectiva) on an investment deal from Dalus to expand its current business.	Small	Mexico	Americas
DFI Inc.	Advised MagiCapital Group on entering into a consortium with Qisda Corporation to launch a tender offer against the outstanding listed shares of DFI Inc.	Upper-mid	Taiwan	Asia Pacific
Duck Creek Technologies	Advised Accenture on the sale of a majority stake in Duck Creek Technologies to funds advised by Apax Partners.	Confidential	Australia, UK	Asia Pacific
ePak Technologies, Limited	Advised One Equity Partners on the acquisition of ePak Technologies, Limited.	Confidential	US, China	Americas
Flexthings	Advised Flexthings on its fundraising from the Polish company Transition Technologies.	Confidential	France	EMEA
Globetouch Inc	Advised Spark New Zealand Trading Limited on a Series C investment in Globetouch Inc.	Confidential	US, New Zealand	Americas
Go-Jek	Advised KKR on the fundraising of Go-Jek.	Large	Indonesia	Asia Pacific

Target	Transaction Description	Deal Size	Geography	Region
Technology, Media & Telecoms (continued)				
Historic Telecommunications Office Schlüterstraße	Advised Peaksid Capital Advisors AG on the acquisition of the 'Historic Telecommunications Office Schlüterstraße' (Fernsprechamt Schlüterstraße) in Hamburg-Rotherbaum.	Confidential	Germany	EMEA
Jeschke Umwelttechnik GmbH	Advised Ufenau Capital Partners on the Kanalservice Group's acquisition of Jeschke Umwelttechnik GmbH.	Confidential	Germany	EMEA
Keesing Media Group BV	Advised Ergon Capital Partners III SA on its buyout of Keesing Media Group BV from Telegraaf Media Group.	Lower-mid	Netherlands, Belgium, Luxembourg	EMEA
Ledger	Advised Ledger as part of a Series B investment by several French and international funds, led by Draper's funds.	Lower-mid	France	EMEA
Limes Audio AB	Advised Limes Audio AB on the divestment to Google Inc.	Confidential	Sweden	EMEA
Momondo Group	Advised The Priceline Group Inc. on its acquisition of the Momondo Group.	Large	US, UK, Denmark	EMEA
Payfit	Advised Accel on the Payfit fundraising.	Small	France, US	EMEA
PlanetArt	Assisted Claranova in the reclassification of its "software" unit in seven jurisdictions, while it also simultaneously finalized the entry of industrial investors in its US subsidiary PlanetArt.	Small	France, UK, Canada, Germany, Spain, China	EMEA
Sensus	Advised Sensus on the sale of its local subsidiary to Xylem.	Large	Chile, US	Americas
Toradex Group (various companies)	Advised the Toradex Group on the sale of 10 Toradex Group companies to a group of investors represented by Verium AG.	Confidential	Switzerland, US, Japan, Vietnam and India	EMEA
TrustInSoft	Advised TrustInSoft on a fundraising from investment funds managed by Ildinvest Partners.	Confidential	France	EMEA
Various targets	Advised Coral Group on a venture capital strategic partnership with AT&T.	Upper-mid	US	Americas

Deal size

Small = USD 50m or less

Lower-mid = USD 50m - USD 250m

Upper-mid = USD 250m - USD 500m

Large = USD 500m +

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