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AN ANALYSIS OF PRIVATE EQUITY & VENTURE CAPITAL

NORTHEASTERN UNIVERSITY
PRIVATE EQUITY & VENTURE CAPITAL CLUB

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Contents: This Week's News

PRIVATE EQUITY

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Palladium Equity announced it acquired engineering and hardware solution company, **Trachte USA**, for over $160mn. This demonstrates a continued search for proper management and solution architecture in the Power and Utility space.

- **Palladium Equity** is a middle-market private equity firm in the United States with around $3bn in assets under management. The firm looks to boost growth by partnering with founders in family-run or founder-led businesses to provide strategic insight and operational guidance.

- **Trachte USA** provides easy to deploy, preassembled control buildings for power transmission and essential industrial equipment. The Company has established customer loyalty through an emphasis on product quality, project management, and overall solutions expertise within the electrical engineering sphere.

- **Deal Structure**: Palladium is acquiring the majority equity ownership for over $160 million with the exact terms undisclosed. The founding family and MPE Partners will retain minority interests in the business.

- **Significance**: Trachte exemplifies the influence of efficient management and decision making, and customer commitment on company stability and growth. Caleb Clark, a Partner at Palladium, notes Trachte's "design engineering, project management, related value-added services, and quality make it the provider of choice". Given the growth of telecom, renewable, and utility sectors in the recent years and the potential for growth in the future, Trachte is a conservative vehicle that will allow Palladium to capitalize on this trend while retaining the Company's rich history and commitment to customer satisfaction.

Technology investor, **Silver Lake Partners**, intends to invest $1.02 billion in the retail division of India's **Reliance Industries**. The investment represents the lasting influence of lifestyle that led to accelerated adoption of online retail which has attracted the interest of private equity.

- **Silver Lake Partners** is a division of Silver Lake, a private equity firm based in the United States that focuses on technology investments. This division seeks to make large investments in technology businesses to accelerate market penetration.

- **Reliance Industries** is a multinational conglomerate that owns various subsidiaries. The Company is India's largest retailer offering a variety of consumer goods and durables. Reliance's online retail division demonstrated strong growth in 2020 as it intends to dominate a market that will potentially be pursued by retail giants Amazon and Walmart.

- **Deal Structure**: Silver Lake Partners plans on making a $1.02 billion investment in the retail division of Reliance Industries, translating to a 1.75% stake in Reliance Retail.

- **Significance**: The bullishness of Reliance Industry's stock demonstrates peaked investor interest as they look to innovative, especially in a fast-growing industry that offers greater stability. The Company's success through such volatile times demonstrates an overall bolstering of the online retail industry and an influence that will last beyond the pandemic.

Humane secured $30 million in Series A funding from early-stage investors **Sam Altman** and **Lachy Groom**.

- **Sam Altman** and **Lachy Groom** are both taking majority stakes in Humane. Sam Altman is the former president of Y Combinator and current CEO of OpenAI. Lachy Groom is also an entrepreneur and early-stage investor.

- **Humane** is a technology company, founded by two ex-Apple executives, that claims to revolutionize the future of computing platforms. Although Humane has been secretive about the specifics of their product, the company aims to create hardware and software that feels natural and empowers people through its connectivity.

- **Deal Structure**: Humane has raised $30 million in Series A funding to continue developing its product. Investors include Altman, Groom and additional minority stakes from Marc Benioff, Valia Ventures, Plexo Capital, and Kindred Ventures.

- **Significance**: This round of funding is crucial to the development of Humane's unique computing platform, but it also demonstrates the increasing demand for a reimagined human experience with technology. Humane's foundation was built on the drawbacks of modern technology, the lack of innovation over time at Apple, and the need to think out of the box and build something better. The startup's financial support validates that a new age of technology is on the horizon.

Silo, a food supply chain company, received $9 million in Series A funding from Andreessen Horowitz.

- **Andreessen Horowitz (a16z)** is a prominent venture capital and growth equity firm based in Silicon Valley with $12B assets under management focused on technology investments.

- **Silo** is a cloud-based service for perishable food supply chain management. Their technology utilizes machine learning to automate operations and streamline relationships in the supply chain.

- **Deal Structure**: Silo raised $9 million in Series A funding led by Andreessen Horowitz with participation from existing investors, Initialized Capital and Haystack Venture.

- **Significance**: Silo's funding will be used to support their 1,300% growth in an attempt to meet current demand, develop new financial and logistical tools, and move beyond wholesale products and into meat, dairy, and pantry items. The average American throws away 400 pounds of food (translating to $218B in lost food), and Silo's technology attempts to combat the issue by streamlining the food supply chain. Silo's foundation and funding showcases the growing prioritization of the triple bottom line and ESG.

Warburg Pincus LLC made a growth equity investment with **GA Foods**, for an undisclosed amount.

- **GA Foods** is a highly specialized manufacturer of nutritional meals for healthcare patients, seniors, children, the military, and those in need of natural disaster relief. The company also delivers all of its product to the homes of its customers, or wherever they may be needed around the world.

- **Warburg Pincus** is an investment firm solely focused on private equity. With a 50+ year track record of growth investing, Warburg Pincus has applied its thesis-driven approach to the many industries and geographies the company has accelerated. With $53 billion in assets under management, Warburg Pincus has established itself as a world leader in the private equity sector.

- **Deal Structure:** Although the financial terms of this deal have not been announced, this strategic investment works to strengthen a new partnership between the two firms. This investment aims to support future strategic initiatives that contribute to the expansion of GA Foods.

- **Significance**: With a pandemic that has deeply affected the ability for many to find nutritious meals on a daily basis, and due to the devastating impacts of climate change in recent years, many don't know where their next meal will come from. Companies that aspire to fight hunger, such as GA Foods, work to serve those who are most vulnerable. Expanding delivery network capabilities and product offerings are the two main objectives going forward for GA Foods, in order to provide the best service possible for the most people. This investment is a crucial step to ensure the company is prepared to take up a larger role serving others when disaster strikes.

Bright Health raised $500 million in a Series E funding round, led by **Blackstone**, a new investor.

- **Bright Health**, a health insurance startup, utilizes smart technology to make patients' healthcare experiences as seamless as possible through a network of doctors, clinics, and hospitals to provide the best medical service available, with an emphasis on value and low cost.

- **Blackstone**, the largest alternative investment group in the world, specializes in private equity, real estate, and hedge fund investment approaches. With $571 billion in assets under management across many industries, Blackstone continues to be a world leader in the private equity space.

- **Deal Structure**: The $500 million funding round comes from previous and new investors joining to promote key market growth in certain regions. Blackstone and Tiger Global Management were among the top contributors, bringing the company's total funding to $1.5 billion.

- **Significance**: This influx of capital allows Bright Health to expand into 43 crucial markets across 13 states, providing patients with a vast nationwide network that works to promote a more optimized experience, with improved communication between professionals. In a time where nearly 10% of Americans are uninsured, expanding coverage options that work to ensure everyone has an opportunity for affordable healthcare has never been more important. Bright Health's mission to improve healthcare access, value, and consumer experience is constantly evolving to sustain the needs of the American people.

M&A ACTIVITY

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Devon Energy, an energy company focused on oil & natural gas at all stages from exploration to development and production has agreed to acquire **WPX Energy** for $2.6 Billion. This deal speaks to the financial struggles that COVID has created for energy companies around the world.

- **Devon Energy** is an Oklahoma-based oil and gas company; they are one of the 10 largest oil producers in the US, producing about 140,000 barrels of oil per day along with 80,000 barrels of natural gas.

- **WPX Energy** is another Oklahoma-based energy producer. During Q1 of 2019, WPX was generating about 111,000 barrels of oil a day, establishing themselves as a powerhouse.

- **Deal Structure**: Devon Energy agreed to buy WPX in a $2.6 billion dollar all-stock deal. The deal sees Devon Energy shareholders given 57% of the combined company while WPX shareholders will hold the remaining 43%. The company will keep Devon's name but WPX ceo, Rick Muncrief will take the reigns. Devon had to pay a 2.5% deal premium and now the combined company has an enterprise value of around $12 billion.

- **Significance**: This deal is a testament to the still reeling oil industry from COVID, as shares of both companies were down 65% this year as a result. Demand for oil was so low at a point in April that oil prices went negative as producers didn't have the space to store the oil and were desperate to dispose of it. Consolidation has been a common theme as companies try to weather the storm and this is just the latest effort to help avoid both companies from going bankrupt as was seen with Chesapeake Energy. In addition, this deal has political motivations from Devon's side as many of their current sites sit on federal-owned lands unlike WPX. Biden has announced that he will ban new fracking on federal lands if he wins the election. This deal helps Devon limit their risk to this policy if Biden were to take office.

Microsoft confirmed the future acquisition of one of the largest video game development companies, Zenimax. This deal will result in the second largest video game acquisition in history.

- **Microsoft** is a multinational technology giant headquartered in Redmond, Washington. On July 30th, Microsoft boasted revenues (TTM) of $138.7 billion, making them the 4th largest tech company in terms of revenue.

- **Zenimax** is a privately held media company that connects game developers, designers, artists, and programmers to create video game content. Zenimax's studios have a track record of creating some of the most successful games; they received the recognition "Game of The Year Winner" five years in a row.

- **Deal Structure**: Microsoft announced on Monday, September 21st, that they will acquire Zenimax and all of its subsidiaries for $7.5 billion in cash. The deal is expected to close in the second half of the 2021 fiscal year.

- **Significance**: This deal marks Microsoft's largest video game acquisition in history with the next largest being Mojang (creator of minecraft) back in September of 2014 for $2.5 billion. Microsoft's investments in gaming entertainment demonstrates its confidence in the future profitability of the industry; they expect the gaming industry to bring in more than $200 billion in revenue in 2021. This acquisition means that Microsoft will have significantly more game studios than Sony: 23 to 14 respectively. Microsoft's Game pass is a subscription based cloud service that enables players to download and play any game within Microsoft's library (essentially a netflix for gaming). Microsoft will be able to add these newly acquired games which will create more demand from players.

FUNDRAISING & LP ACTIVITY

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Silversmith Capital Partners closes Growth Equity Fund III at $880mn after strong fury of enthusiasm from investors.

- **Silversmith Capital Partners** is a growth equity firm specializing in SaaS, information technology, and health-tech services. Past experiences include 23 growth-stage investments - acting as lead investors in 18 out of the 23 - as well as 3 successful exits.

- **Targets**: Fund III's strategem consists of targeting prospective entrepreneurs, healthcare companies, and profitable technology companies. Fundamentally, investments will be centered around growth-stage leveled companies.

- **Deal Structure**: Silversmith Capital Partners seeks to invest 20-100 million USD per company. Depending on its evaluation of a company, SCP will invest in either a majority or significant minority stake.

- **Significance**: Despite the on-going pandemic, a weakened economy, and overall slowing financial market activity, Silversmith Capital Partners prevails through achieving milestone fundraiser goals. This milestone fundraiser for SCP demonstrates high levels of excitement and optimism from investors towards Saas, information technology, and health-tech service sectors in which SCP specializes in. SCP managing partner Todd MacLean believes that current market shocks will produce "unprecedented accelerations of innovation" and thus has high hopes in Fund III's lofty investment ambitions.

Advent International raises $2 billion for its seventh private equity fund dedicated to Latin America.

- **Advent International Corp** is a global private equity firm focusing on buyouts of companies in North America, Latin America, Europe, and Asia. The firm focuses on investments in five core sectors, including business and financial services; healthcare; industrial; retail, consumer and leisure; and technology. They currently pride 56 billion AUM.

- **Targets**: LAPEF VII will invest primarily in Brazil, Colombia, Mexico and Peru, and may also invest opportunistically in nearby countries including Argentina and Chile. Advent seeks to invest in mid-sized to large companies and expand them globally.

- **Deal Structure**: The Fund will deploy capital across buyouts, corporate carve-outs and growth equity transactions, with equity investments ranging from $50 million to $300 million or more.

- **Significance:** The new fund solidifies Advent's position as one of the leading and longest-established private equity investors in Latin America. Latin America is a large market with a rapidly growing middle class, fueling strong demand for value-added products and services. With COVID-19 depreciating national currencies, the strength of the US dollar gives Advent fire power for bigger deals as they seek out attractive investments in Brazil's tech sector.

LIQUIDITY EVENTS

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Boxlight, an American edtech company, pays $94.9M for Sahara Presentation Systems.

- **Boxlight** creates engaging technology for the global learning market. Its products, ranging from classroom tech to software, aim to enhance student learning with a collaborative, STEM-focused approach. Since the outbreak of COVID-19, the edtech market has seen increased growth and interest.

- **Sahara Presentation Systems** is a UK-based firm specializing in audio visual solutions, touchscreens, and software. Before the pandemic, the audio visual industry was one of the fastest growing industries due to the adoption of audio visual technology in digital classrooms.

- **Deal Structure:** The payment was split between cash and preferred stock. Boxlight paid around $66.7 million in cash and $22.2 million in preferred stock to Sahara shareholders.

- **Significance**: The acquisition expands Boxlight's presence into Europe, Africa, and the Middle East. Boxlight seeks to leverage Sahara's expertise in AV technology to further drive revenue growth and ultimately create a greater range of technological solutions for classrooms and the workplace. The demand for AV tech is expected to continue growing because of recent increased ease of use and consumer familiarity.

Illumina Inc., a manufactures and marketer of integrated biological systems analysis, will pay $7.1B for the remainder of GRAIL Inc. and their early cancer detection device, Galleri.

- **Illumina Inc.** develops and manufactures tools to analyze genomic sequences. They intend to expand into the genetic applications market. Personalized medicine, based on individuals' genetics, is anticipated to revolutionize medical care.

- **GRAIL Inc**. was founded by Illumina and investors to develop an early cancer detection device. Next year, they expect to launch Galleri, a blood test that can early-detect 50 different cancers. With no revenue to date, Galleri looks to be part of the potential $46B market by 2035.

- **Deal Structure**: Illumina, who owns a stake in GRAIL and will buy out other stakeholders for $3.1B cash and $4B in Illumina stock. They have the option for additional cash or stock, or receive 2.2% of GRAIL's revenue before the first $1B and 7.9% of revenue beyond $1B for 12 years.

- **Significance**: Illumina is spearheading the clinical applications of its devices which yielded nearly $1.3B of their $1.5B of first half revenue. Demand for cancer genetic sequencing is increasing, the market is compounding at an annual rate of 27%. Early detection means greater survival rates which will appease both doctors and patients. However, now, Illumina has the task of convincing insurance companies to pay for it.

Progress made a $220 million all cash acquisition of Chef. The deal is expected to be finalized in October 2020.

- **Progress** is a cloud software company that simplifies development, implementation and management of business applications on premises or on the cloud.

- **Chef Software, Inc.** was founded in 2008 and has over $70 million in annual recurring revenue produces. It produces software allowing information technology departments to automate the process in which they configure and deploy applications.

- **Significance**: With the addition of the Chef's products, Progress has now entered the devops space. Progress currently makes a leading platform for developing and deploying applications, and Chef will enhance the company's value by offering compliance and application automation products for cloud and on premise infrastructure. Last year, Chef announced its move to become a 100% open source company aiming for more clarity in the development process (like Red Hat Linux). Most of Chef's competitors operate on a licensing business model instead of open source. In a blog written about the acquisition Progress CEO, Yogesh Gupta said, "Progress has an aggressive goal to double our company in five years by acquiring businesses that complement our portfolio, provide long term, sustained value to customers and can benefit from our scale and strength for greater success." If Progress hopes to achieve their goal of doubling the company in 5 years, they must maintain aggressive acquisitions and develop a strong product suite.