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AN ANALYSIS OF PRIVATE EQUITY & VENTURE CAPITAL

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PRIVATE EQUITY & VENTURE CAPITAL CLUB

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Contents: This Week's News

Carlyle Group acquires Victory Innovations, a leading producer of high-tech disinfecting tools.

- **Carlyle Group** is a multinational private equity, alternative asset management, and financial services company with $221B in assets under management. The firm invests in 10 core industries through their 4 primary business segments: corporate private equity, real assets, global credit, and investment solutions.

- **Victory Innovations** created the world's first cordless electrostatic sprayers in either a backpack or handheld version. The sprayers apply chemicals faster, using less solution, which lead to more complete coverage. The increased demand for disinfectants from the COVID-19 pandemic has caused recent success for the company, as their products have been purchased for use in schools, offices, airplanes, factories, and other spaces.

- **Deal Structure**: The financial terms of the deal were not disclosed, but the transaction is expected to close before the end of the month. This investment will come from Carlyle Partners VII, which is an $18.5B fund focused on acquiring majority or minority stakes that align with the fund's goals. The investment will support the company's growth as well as expansion efforts into Asia, Europe, Latin America, and Africa.

- **Significance**: As a direct result of the global pandemic, the cleaning and disinfectant industry has experienced tremendous success and growth. The need for improved and constant sanitation around the world will not be going away anytime soon. The Carlyle Group said themselves that cleanliness will remain a high priority for years to come even after a vaccine for COVID-19 is distributed. Private equity firms are eager to get involved in this booming industry.

Peak Rock wraps up its acquisition of leading healthy bar and snack company Halo Foods.

- **Peak Rock Capital** is a middle-market private equity firm with around $1.8B assets under management that makes debt and equity investments in both the U.S. and Europe. The firm prioritizes investment opportunities to support senior management in creating rapid growth and profit improvement.

- **Halo Foods** is a UK based food manufacturing company focused on creating nutritious and tasty snack foods. The company has food products within a few areas including healthy snacking, indulgence, nutritionally controlled, and free form. The free form division has created and manufactured dairy free, wheat free, gluten free, and vegan products to keep up with the increasing demand for "clean eating" foods.

- **Deal Structure**: Peak Rock Capital purchased Halo Foods from Dutch private equity firm, Nimbus, through a leveraged buyout. Although the financial terms have not yet been disclosed by either party, Nimbus and Lauren Spethman Holdings reportedly maintain a minority interest in Halo Foods. This investment was made through Peak Rock's most recent fund, Peak Rock Capital Fund II LP, which closed at $1.3 billion in 2018.

- **Significance**: Peak Rock Capital has already made numerous investments in the food and beverage industry in recent years, but this is their first acquisition in Europe's rapidly growing snack industry. Peak Rock hopes to grow Halo Foods through plans to internationalize distribution, support product innovation, and potentially engage in bolt-on acquisitions. Peak Rock's activity is also just another example of how private equity is able to capitalize during the economic crisis. Struggling companies are strapped for cash and seeing decreasing valuations, leading to opportunity for private equity firms.

Osso VR secured Series A funding of $14mn, led by Kaiser Permanente Ventures.

- **Osso VR** provides VR surgical training for healthcare professionals that simulates detailed procedures, resulting in improved medical advice. Constantly working to minimize the health training gap, the automated learning engine is a massive value-add in the constantly changing healthcare industry.

- **Kaiser Permanente Ventures** utilizes early and late stage venture strategies to invest in healthcare companies in the Western US. Kaiser typically partners with others firms looking to deliver quality healthcare solutions.

- **Deal Structure**: Kaiser Permanente Ventures led the round with $14mn, followed by SignalFire, GSR, and Scrum Ventures. Osso VR's proprietary technology has become a highly valuable asset in the healthcare industry as augmented reality capabilities expand in the medicinal world.

- **Significance**: The market for teaching medical device use is currently $3 to $5 billion and is growing quickly, so this deal puts Osso VR in a position to gain a greater market share in the coming years. Osso VR has gotten a massive boost in interest from hospitals and medical device companies since the COVID-19 pandemic began because their technology allows medical professionals to train and learn remotely. They have been extremely effective with surgeons, as an independent study found surgeons training with Osso VR saw their surgical procedure performance increase 230%. This funding will allow them to expand their technology to parts of healthcare other than surgery and expand the network of hospitals they conduct business with.

Klarna raised $650mn in equity funding led by Silver Lake, bringing their valuation up $5.1bn to $10.6bn.

- **Klarna** is a Swedish fintech company best known for their "buy now, pay later" business model. Through their mobile app, shoppers are given interest-free financing on retail purchases, which they pay in installments. They are leading the way in creating a bridge between the finance and retail industries. They have over 90 million customers globally with 55,000 new downloads daily. Klarna is unique because their services are a simpler, healthier alternative to credit cards and their wide service offerings create an optimal shopping experience.

- **Silver Lake Partners** is a global leader in technology investing, managing more than $60 billion worth of assets and committed capital. Through their portfolio of cutting edge technolocy investments, they annually generate over $204 billion in revenue and employ over 356,000 workers globally.

- **Deal Structure**: Silver Lake was the primary contributor to the financing, along with GIC and funds managed by BlackRock and HMI Capital. At the same time, TVC, Merian Chrysalis, Northzone, and Bonnier have bought stock from current shareholders. This is the company's largest funding round since their last growth equity run in August of 2019 at $460 million.

- **Significance**: With recent exponential ecommerce growth in the mobile space, smartphone purchases have become a critical aspect of the consumer buying process worldwide. In the midst of a pandemic, technology has increased its presence in every industry, bringing increased responsibility to the firms that connect the buyer and the seller. As Klarna facilitates payment management and options to those on a tighter budgets, their service is especially valuable in a time of crisis.

Zwift secured a $450mn minority investment, with contingencies, from KKR, existing partners and others.

- **Zwift** is an online multiplayer cycling and running program that allows players to train, interact and compete in a virtual world. After launch in 2015, it has had over 2.5 million users registered. Recently, it has seen an influx of quarantine users as the platform encourages exercise and enables virtual connection.

- **KKR** is one of the world's leading private equity firms that invests in energy, infrastructure, real estate, and credit. They also manage hedge funds through strategic partners.

- **Deal Structure**: The $450 million minority investment comes from Zwift's Series C funding round and will be a combination of a direct investment in Zwift as well as the purchase of shares from existing shareholders. The percentage of equity involved in the investment was not disclosed but a Zwift professional said that it put the company over the $1 billion-dollar mark making it a "unicorn."

- **Significance**: In order to use Zwift's app, a smart trainer (mounted tool on a stationary bike that enables apps such as Zwift to control resistance) is needed to allow machine and technology to connect wirelessly. This new influx of capital will enable Zwift to invest and manufacture their own smart trainers. Additionally, the funding will be allocated towards their core technology platform to expand current capabilities and offer customers a more "immersive and seamless experience". Zwift's plans to capitalize on COVID-19's increased demand for home fitness. With $450 million in new cash, a proven management team, and set plans for capital allocation, Zwift appears to have a very promising and profitable future.

LifeSpeak has received $42mn from Round13 Capital, Kensington Capital Partners, and Roynat Capital.

- **LifeSpeak** is a Toronto-based digital platform that provides video training sessions, customizable plans, access to leading mental wellness experts, as well as "next step" plans to several North American companies. Work-life balance and mental well-being applications, such as LifeSpeak, stand to experience tremendous growth as the space continues expanding.

- **Investors**: The trio of growth equity firms focus on Candadian technology and healthcare opportunities. Round13 Capital led, providing $18 million in funding; Kensington and Roynat (subsidiary of Scotiabank) followed. These firms typically aim for their investments to be within the $3-20 million range.

- **Deal Structure**: $42mn minority investment divided by three Canadian investment firms. This investment was a combination of direct investment as well as buying out existing shareholders that puts the company at a valuation of over $100 million.

- **Significance**: Through this investment, LifeSpeak will get funding to help them expand their market reach into the US and Europe as they currently do most of their business in Canada. Michael Held, CEO of Lifespeak, also said that the new funding will also be used to build out sales and marketing so that LifeSpeak can be accessed through a greater number of health plans and employees. Depression and anxiety among the US labor force since the start of COVID has as much as tripled from 2019 due to remote work according to the CDC. As remote work seems here to stay for quite some time, corporations are investing more into mental health solutions that can be administered remotely such as LifeSpeak's program.

GNC Holdings Inc wins court approval to sell itself to majority stakeholder Harbin Pharmaceutical Group Co. in $770 million deal increasing US and China's political feud

- **GNC Holdings Inc** is a Pittsburgh-based nutritional supplements global retailer selling health and nutrition related products, including vitamins, supplements, minerals, herbs, sports nutrition, diet, and energy products. For 2019, GNC reported a $35 million net loss on over $2 billion in revenue. GNC had failed to capitalize off of the latest dietary supplement boom after having to close 1200 stores nationally and filing for Chapter 11 bankruptcy due to the huge systematic risk of COVID-19.

- **Harbin Pharmaceutical Group Co., LTD** is a Chinese based pharmaceutical company engaged in the research, development, manufacture and sale of pharmaceutical products. The company operates seven main business segments, which are antibiotics, small-molecular drug preparations, OTC and healthcare.

- **Deal Structure**: GNC Holdings Inc filed for Chapter 11 Bankruptcy in late June, choosing Harbin Pharmaceutical Group Co to lead the bidding. On September 17th, 2020 was acquired by HPGC for $770 million, the price including Harbin paying off $220 million in loans and other debts that GNC accumulated.

- **Significance**: Harbin describes itself as being owned by the Chinese government, which prompted U.S. Sen. Marco Rubio, to call for a national security review of the deal. Foreign investment officials have also made annual site visits since then to ensure that GNC is protecting consumer data. This acquisition has heightened US security in regards to possible Chinese espionage.

Verizon Communications Inc. (NYSE: VZ) agreed to buy Tracfone for $6.9b, a deal demonstrative of an ever-tightening mature telecommunications market that's attributable to an increasing potential of next-gen technology implementation.

- **Verizon Communications Inc.** is the largest U.S. wireless carrier, providing telecommunications and broadband network services to over 120 million customers. With its well-established consumer base and extensive network infrastructructure, Verizon is poised to be a leader in the coming 5G rollout.

- **Tracfone** is the largest U.S. prepaid cell phone service provider, with over 21 million customers across a network of over 90,000 retail stores. Cell phone service is provided through riding the systems of other carrier networks - such as Verizon - for a fee, thus a smooth transition is expected.

- **Deal Structure**: The $6.9b acquisition comprises a $3.125b cash payment and a purchase of $3.125b in common stock, with $650mn attached upon reaching performance milestones.

- **Significance**: Through this acquisition, Verizon is positioned as a major contender in the prepaid cellular service market and has discernibly reinforced its dominance in the telecommunications industry. With a bolstered and expanding consumer base, Verizon plans to launch 5G services in the near future. Verizon's CEO believes that this was an important strategic acquisition in opening up this segment of the market to exciting and compelling products.

FUNDRAISING & LP ACTIVITY

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Questa Capital has closed Fund II at $348mn from a myriad of investors.

- **Questa Capital** is a venture growth equity firm specializing in the healthcare industry. Fund II is the firm's sophomore fund and will invest in later stage healthcare companies that demonstrate growth potential. Questa Capital has over 70 years of experience helping to develop growth stage companies and has exited over 30 investments.

- **Targets**: Questa seeks to acquire later-stage companies that have 20 percent year-on-year revenue growth and a potential market greater than 500 million USD. Current portfolio companies include Epix Therapeutics, a medical device company, and Dispatch Health, a healthcare firm dedicated to providing in-home urgent-care medical services. Questra looks for tech-driven, patient-centric companies operating in high growth markets.

- **Deal Structure**: Questra Capital looks to invest 15-40 million USD on either a majority or minority stake. Typically, the firm takes 20-30% ownership of companies it invests in. The capital provided is used to achieve strategic growth goals or to provide partial liquidity.

- **Significance**: The amount of capital raised through Fund II has exceeded expectations despite the current coronavirus outbreak. Questa is dedicated to using capital to help firms that decrease the cost of healthcare.

Archimed has raised 1bn+ Euros for MED platform I, its middle-market buy-and-build fund.

- **Archimed** is an investment firm specializing in healthcare and operates across North America and Europe. The MED platform I is Archimed's third fund focused on healthcare's mid-capitalization sector.

- **Targets**: Since its first investment in mid-2019, MED platform I has acquired BOMI Group, a healthcare logistics firm, and Direct Healthcare Company, a healthcare firm focused on pressure care technologies. Archimed looks to partner with growth companies to expand geographically and add new product lines. Their third major deal came recently when they bought a majority stake in NAMSA, which tests the safety of medical device materials.

- **Deal Structure**: Archimed buys majority stakes in the companies it partners with. The price typically ranges between 50 - 500M Euros.

- **Significance**: MED platform I is notable for being Archimed's first fund to focus on the mid-cap sector. Their ability to raise over 1B Euros in the midst of the COVID-19 pandemic may signal investors' confidence in the fund.

Snowflake, a cloud-data warehousing company, completed its initial public offering last week (NYSE: SNOW). The share price rose above 100% in the first day of trading making it the largest software IPO in 2020 reflecting the transition to a data driven society and the rise of SaaS.

- **Snowflake** is a cloud-data warehousing company whose primary service is offering outsourced data storage solutions to businesses with immediate access to the Data Cloud. Snowflake also offers a variety of unique services to help interpret and analyze the data being stored by its customers giving it a distinct competitive advantage in the software industry.

- **Notable Investors**: Large commitments were made by Berkshire Hathaway and Salesforce with each company agreeing to purchase $250 million worth of Class A stock in a private placement. The Company's pricing above initial expectations bolstered demands and raised nearly $3.4bn.

- **IPO Terms**: Snowflake offered 32,300,000 shares of Class A common stock with the option to purchase 4,200,000 additional shares of Class A common stock at $120. The pricing of the shares at $120 was well above the initial expectation of $75-$85 per share.

- **Significance**: Snowflake's debut is similar to the frothy environment of the dot-com bubble as the company reached a market capitalization of $70 billion before paring gains. With only $242 million in revenue last year and the high valuation equating to nearly five times its $12.4bn valuation in private funding resulting from the Company's IPO, Snowflake has a lot to prove to investors in an environment that as shifted in favor of technology companies.

Opendoor, a property technology company, has filed to go public through a reverse merger with special purpose acquisition company (SPAC) Social Capital Hedosophia Holdings Corp. II (NYSE: IPOC). This merger is reflective of the rising popularity of SPAC's and a push towards a greater reliance on technology in a primarily digital environment.

- **Opendoor** is an online real estate platform that streamlines processes of home sales and purchases. The Company coined the term "iBuying", a strategy in which it uses technology to make an offer on property and in turn handles the marketing and reselling of the home. This model puts Opendoor at the forefront of the rapid real estate and revolutionizes traditional methods of home sales.

- **Social Capital Hedosophia Corp II (SCH)** is a SPAC that functions as a "blank-check" company that aims to acquire a private company to take public while avoiding nuances of a traditional IPO.

- **Deal Structure**: The $1.014bn merger is composed of $414mn in cash from SCH's trust funded through the SPAC's IPO and $600mn PIPE at $10 per share.

- **Significance**: This merger is a breakthrough for e-commerce as it reflects a pivotal move of one of the remaining non digitized industries, real estate, to the online market. Opendoor seeks to completely digitize the house-buying and selling process and scale its operations into new markets through applications of machine learning to improve overall convenience and efficiency of an otherwise cumbersome experience.

Biofourmis received $100 million in Series C funding led by Softbank Vision Fund, with participation from returning investors Openspace Ventures, MassMutual Ventures, Sequoia Capital and EDBI.

- **Biofourmis** combines AI – based analytics and sensors to monitor progress of medical treatments. The digital therapeutics company was launched in Singapore but is now headquartered in Boston. Biofourmis has offices in Boston, Singapore, Switzerland, and India.

- **SoftBank Vision Fund 2** launched with $108 billion in July to invest in AI – based Technology. Vision fund 2's focus on assets including health tech, other investments in the fund include Alto, pharmaceutical delivery startup, and life science company Karius.

- **Transaction:** The company's last funding was in May 2019 for a $35 million Series B led by Sequoia India and MassMutual. To date Biofourmis has raised a total of $145 million.

- **Significance**: With their new round of funding Biofourmis looks to continue their aggressive approach to growth. Biofourmis plans to bring new digital therapeutic market solutions for cardiology, respiratory, oncology, and pain treatments. And just this year, Biofourmis embarked on a program with the University of Hong Kong to assist with monitoring and treating COVID-19 patients. Biofourmis has a promising future ahead of them and has positioned themselves as a leader in using AI and machine learning base models to advance digital therapeutics. Biofourmis further announced structural changes of operations including two vertical operating models. These two models consist of Biofourmis Therapeutics and Biofourmis Health. Biofourmis Therapeutics partners with companies like Astaxenexa and Chugai to create software that can help increase the effectiveness of drug treatments, and Biofourmis Health is a home hospital platform that allows health providers to monitor patients remotely as they transition out assisted care to return home.