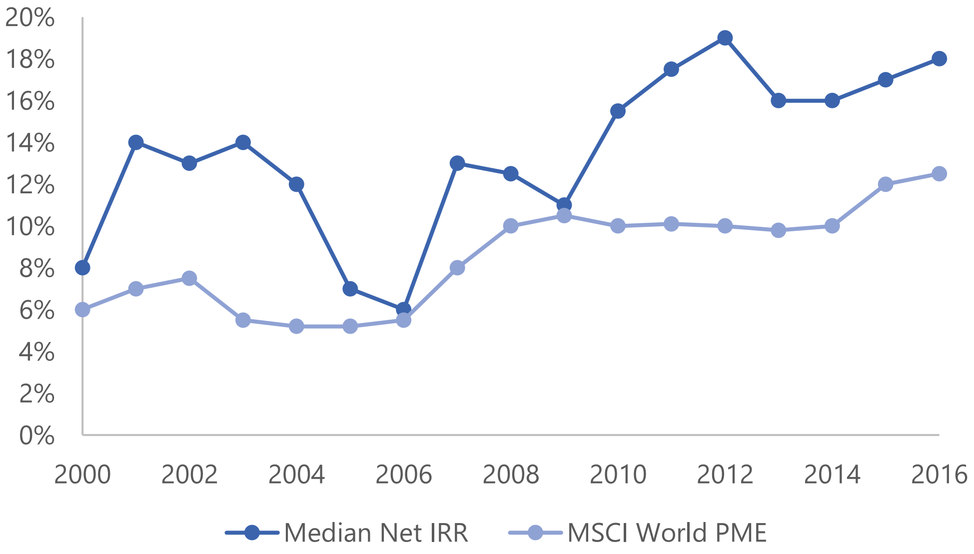
Bordier Private Markets Newsletter

January 2024

Setting the scene…

- ***Welcome to the inaugural Bordier Private Markets Newsletter.*** This bi-annual Newsletter will aim to provide a succinct summary of relevant developments in the world of private markets. We hope you will enjoy it!
- It is clear that we are in a new world generally with inflation returning and associated (and rapid) increases in interest rates. This has an impact on capital markets globally, including private markets
- The portion of PE returns attributable to low-cost debt financing will clearly fall in the coming years and certain investments will suffer. The focus will shift to delivering on growth plans, and, in the buyout world, this will privilege firms which are able to genuinely add value to their portfolio companies via operational know-how
- Times of dislocation have historically resulted in some of the best private equity vintages in the subsequent years (post dot-com, post GFC) and we believe 2023-2024 will provide a backdrop for leading funds (across many strategies) to make very attractive risk-adjusted investments
- In our view, we have entered a healthier environment for private markets, where there will be a return to the importance of selecting the best private markets managers and having a diversification in terms of strategies

Private Equity returns vs public market equivalent returns



Source: Preqin as of August 2020. PME metrics benchmark fund performance against public market indices while accounting for fund cash flow timings. MSCI World Index used as PME (public market equivalent). The MSCI World Index tracks large and mid-cap equity performance in developed market countries.

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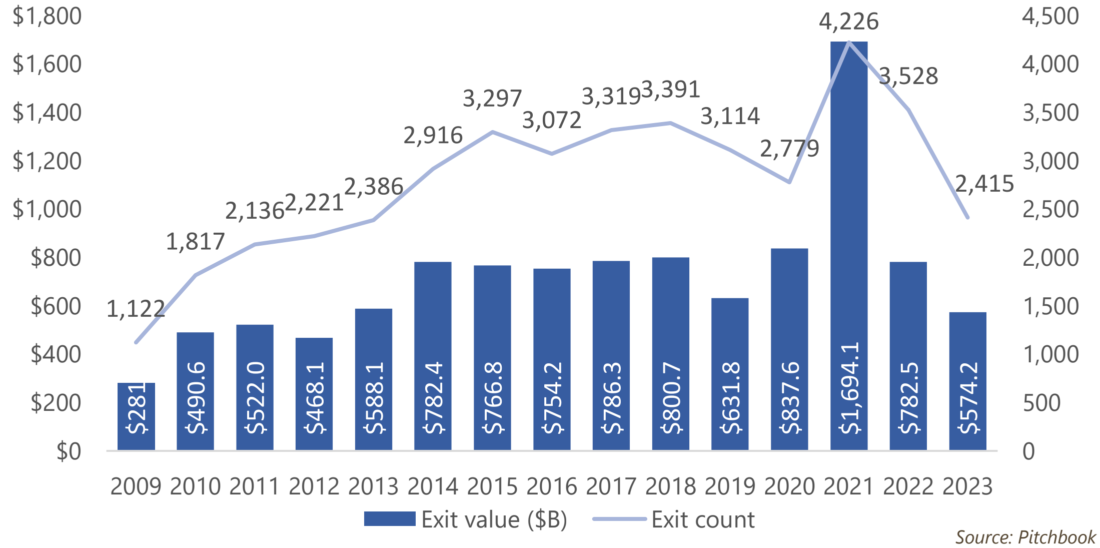
2023 year in review

- In terms of liquidity provided to investors globally, private equity had a difficult year in 2023, with the number of exits and associated cash inflows for funds decreasing to the levels of 2012-2013. In only two years liquidity dropped by 43% (exit count) and by 66% (exit value) as shown in the below graph
- Some strategies, like venture capital, have suffered more than others. Arguably, this segment was the most over-heated and events like the collapse of Silicon Valley bank, a frozen tech IPO market, the impact of higher interest rates have certainly led to a correction in valuations and down rounds for those who have needed to raise capital
- On the other hand, Secondaries strategies have benefited from this complex environment and the demand for liquidity. Secondary transactions and associated discounts have increased significantly in 2023. Private credit investments also had an active period, boosted by the higher base rates and increased safety linked to the debt side of the capital structure
- Economic turbulence and market corrections also bring their share of good news. For instance, median EV / Ebitda multiples have contracted to 11.0x according to Pitchbook, while they were always higher since 2017. This is a sign that the market is becoming healthier and less exuberant

Global PE exit activity



Source: Pitchbook

2023 investment and exit activity illustrations

- **Birkenstock's IPO in October 2023**

At the IPO price, L Catterton's investment in Birkenstock results in a realized return of 3.1x gross MOIC and 59% gross IRR

- **Carlyle sells Grand Foods to McDonald's Corporation**

Carlyle invested in Grand Foods Holdings (GFH) in Jul-2017. GFH is the master franchisee for McDonald's restaurants in mainland China. This exit represents a return for Carlyle of 6.7x gross MOIC and 45% gross IRR

- **Thoma Bravo exits software company Adenza**

Adenza was bought by strategic buyer Nasdaq in Jun-2023 for $10.5 billion. In less than 3 years, Thoma Bravo earned a >2x return on investment with this deal

- **KKR acquires Telecom Italia fixed-line network**

In November 2023, private equity firm KKR acquired Telecom Italia's residual network assets for €19 billion and merged them with portfolio company FiberCop to form the only national fixed line telecom network in Italy

- **Clayton Dubilier and Rice take private Focus Financial**

In August 2023, CD&R took private Focus Financial Partners (wealth management firm active in the fragmented RIA space listed on Nasdaq since 2018 and prev. owned by KKR) in an all-cash transaction valuing the company at $7 billion

- **Arctos Sports Partners buys 12.5% of PSG**

The transaction happened in December 2023 and values the football club at €4.25 billion, while Qatar Sport Investments retains control

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2024 perspectives

- **Exits will come back:** the significant drop in 2023 exits is particularly troubling for funds that are late in their life cycle, or already in their harvesting phase – so expected to provide liquidity to their investors. While it is difficult to predict exactly when, the rebound in exits will come. Many GPs are preparing their portfolio companies for exit and multiple options will be explored – trade sales, secondary buyouts, IPOs, recapitalizations
- **Investors' appetite will resume:** investor sentiment towards private markets will recover as interest rates decrease in the next few months (lowering the opportunity cost) and when the exit environment improves (an investor getting liquidity is most of the time a repeat investor in subsequent fund vintages)
- **Good time to invest:** funds which are starting or early in their investment period are in an advantageous position, since they can deploy capital in a more attractive valuation environment
- **Artificial intelligence** has been a big theme of 2023 following the release of ChatGPT by OpenAI and investors are seeking to get direct access to this transformative technology via venture capital funds. This is likely to continue into 2024, although the discussion will also be oriented towards the application of AI more broadly across buyout firms' mature portfolio companies
- **Consolidation will continue:** large asset managers have been acquiring private market firms, driven by their desire to diversify their revenue streams, secure the recurring income linked to private markets managers' business model, as well as widen their service offering. Private asset managers are selling to realize value created or in the absence of clear succession plans. Examples include:

  -Blackrock announced on 12 January 2024 the acquisition of Global Infrastructure Partners (GIP) for $12.5 billion. GIP, founded in 2006, is one of the strongest private managers within the infrastructure strategy ($100 billion in AUM)

  -Franklin Templeton acquired Lexington Partners in November 2021 for $1.75 billion. Lexington, founded in 1994, is one of the world's largest managers of Secondary private equity ($75 billion of total committed capital)
- **IPOs of private asset managers:** CVC Capital Partners and General Atlantic have both announced their intention to IPO. As a reminder – Carlyle, KKR, Ares and Blackstone are already listed on the New York Stock Exchange or on Nasdaq

PE managers backed by Bordier recently

Blackstone ARES Lexington Partners