



INVEST OR WALK

Adopt a sector
thesis approach to
thrive in technology
dealmaking

Data provided by

 **PitchBook**



IT LANDSCAPE

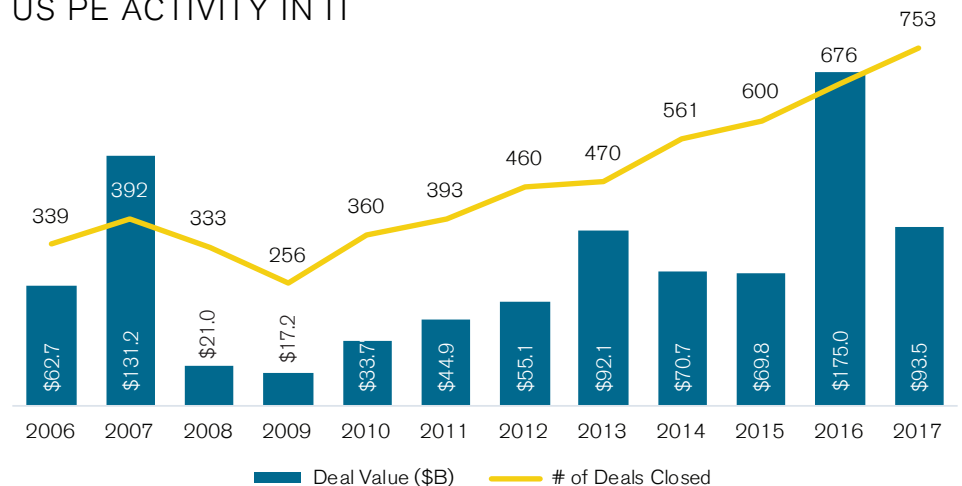
With a staggering 750+ completed PE transactions in the IT space, for a combined value of \$93.5 billion in 2017, software continues to eat the investment world. It comes as no surprise that PE's interest in IT has never been keener.

PE firms have plenty of capital to work with, yet the pressure to deploy capital has only intensified. Capital overhang has rarely been higher than it is now, at close to \$850 billion across North America and Europe, despite general multiples surging to 12.0x last year.

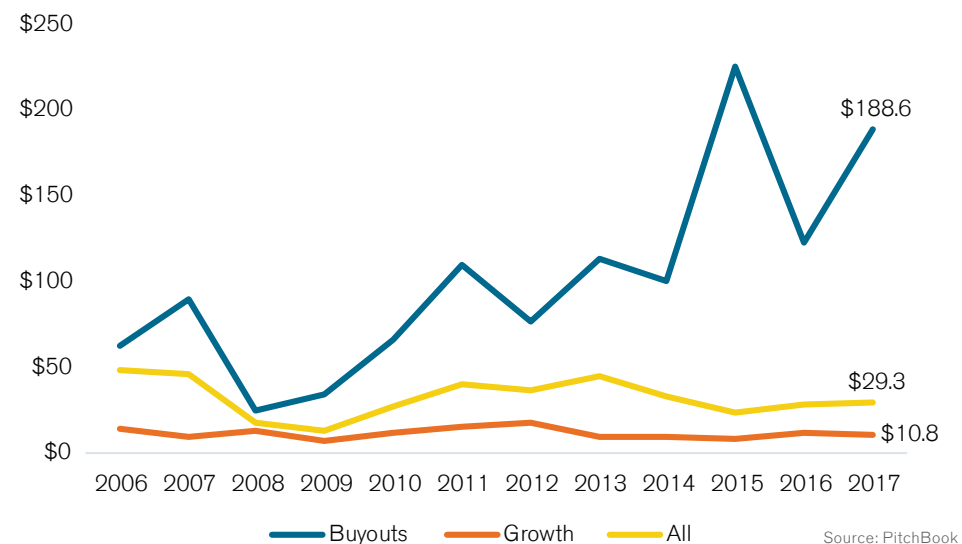
"It has become so competitive that today if you take part in a process with a committed buyer, you need to have a sharpened perspective on the industry and the target. Without that your chances of winning that process might even be less than those of a firm on day one of pursuing an investment thesis," says Dave Myers, founder of Apex Leaders.

PE firms cannot afford to be passive financial partners. You have to start your homework much earlier.

US PE ACTIVITY IN IT



MEDIAN US PE DEAL SIZE (\$M) IN IT



of private equity. We connect investment teams with handpicked advisors rarely found in an expert network; these 'river guides' accelerate the decision to invest or walk. We measure: 1) quality of advisor, 2) speed of delivery, and 3) overall customer experience satisfaction. To view our performance indicators in real time, [click here](#).

The world of M&A is increasingly competitive. Firms are challenged to do more with limited resources. At every stage of our client's investment lifecycle, be it sector thesis development, deal sourcing,

diligence, or portfolio advancement, we get them to "yes" or "no" more quickly. Apex Leaders cuts unnecessary operational waste and enhances the investment returns through exclusive partnerships that build our clients' executive networks.

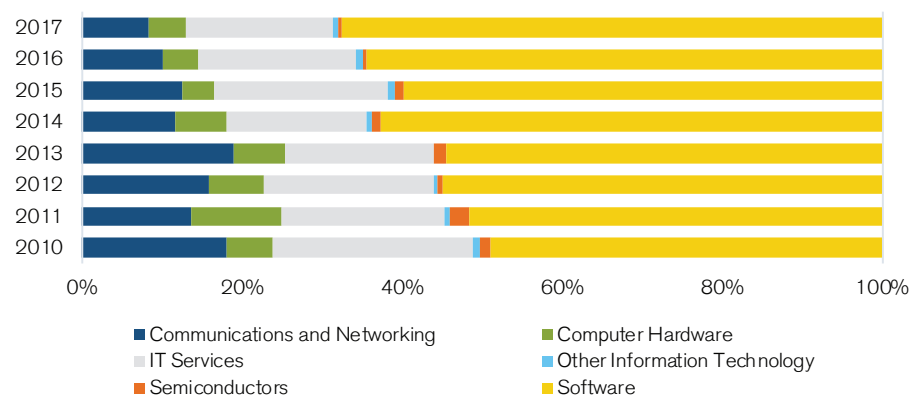
The firm successfully executes hundreds of engagements annually across a wide range of industries, exercising our creativity and tenacity every step of the way. We believe thoughtful human relationships are a prerequisite for out-performance and seek to partner with firms who share this belief. Founded in 2009 and based in beautiful Boise, Idaho, Apex Leaders has built a culture based on the dual premise of always putting our clients first and taking good care of our employees.

SOFTWARE DISINTERMEDIATION

Software is arguably the most competitive arena amid the entire technology landscape. It's not that every manufacturing business, to take one example, is becoming purely digitized, but that key aspects of multiple businesses are being disintermediated by software companies. Manufacturing firms are streamlining supply chain logistics via tracking apps, financial services middlemen are being cut out by customer-friendly UX platforms, and many additional changes are increasingly making an understanding and focus on technology's role critical. The rate of change is rapid, as has been dealmakers' increasing focus on software investment, evidenced by the significant increase in deal volume for software.

"There's a tech component to every deal," says Justin Fishburn, vice president at Apex Leaders, "even if you aren't explicitly targeting tech. You have to ask yourself, what tech trends are changing that will flip a given industry upside down in five years?"

US IT PE DEAL FLOW BY IT SEGMENT (#)



Source: PitchBook

Prominent players such as Vista Equity Partners have become highly successful in the realm of software, accompanied by several other firms that have doubled down on technology investing, developing specific, explicit sector theses in order to succeed. Given the industry's pervasion of nearly every segment, sector lines are getting blurred, but one thing is clear: The most successful PE firms are highly cognizant of not only getting exposure to the space but also staying on top of upgrades and changes that are relevant to their portfolio companies.

In this environment, differentiation in both strategy and sector approach is crucial to winning deals, as is demonstrating sector expertise that can ensure staying power in such a rapidly changing field.

Top-performing funds that we've worked with proactively develop a sharp point of view on where to invest, even before a deal comes to market.

TOP 25 INVESTORS IN PE IT DEALS SINCE 2010

Vista Equity Partners	121
Thoma Bravo	88
ABRY Partners	87
Accel-KKR	78
Summit Partners	68
Insight Venture Partners	68
Providence Equity Partners	67
Kohlberg Kravis Roberts	63
TA Associates Management	61

Marlin Equity Partners	54
Silver Lake Management	49
HarbourVest Partners	48
GTCR	48
Genstar Capital	47
JMI Equity	45
The Blackstone Group	41
Battery Ventures	40
Pamlico Capital	39

Endurance International Group	38
Francisco Partners	38
The Goldman Sachs Group	37
TPG Capital	35
The Riverside Company	35
M/C Partners	35
Spectrum Equity	34

Source: PitchBook

ACHIEVING DIFFERENTIATION FROM THE BEGINNING

Developing a robust sector thesis quickly involves laying down fundamentals for the longer term, not just closing the gap once 80% of the fundamental decisions have already been made. The preparation taken could pay off very quickly—or it could pay off down the road at a later point in the cycle. It's all contingent on first nailing those key steps in a thorough yet accelerated process taking several weeks.

"Coming up with ideas and developing the internal processes to successfully execute on thesis initiatives can be the most difficult hurdle to forming an approach," says Myers. "Many firms tee up theses after reviewing books and participating in processes where they didn't know much, but they liked everything they learned as it related to a specific subsector. This

The faster you define your investment sweet spot, the more effective you will be at positioning yourself as a preferred buyer across desired industries.

becomes the starting point for their thesis work with us."

However, once the process of forming the sector thesis is accomplished, now armed with resources ranging from a newly developed network to a clearly defined approach, firms can begin executing much more quickly.

Beyond traditional auctions run by investment banks, there have been innovations in deal sourcing that could be beneficial for PE firms looking to sidestep intense competition. Being able to circumvent crowded, competitive auctions is one of the first important potential benefits of having built out a sector investment thesis.

"If you possess a well-developed investment thesis, then the partners and relationships you can form via advisors can help you find more proprietary deals," advises Fishburn. "It's about first building and/or utilizing a network to gather information and truly identify where your sweet spot is."

And so, with that formed thesis, and a promising prospect identified, firms can begin executing.

SWIFTER EXECUTION

It's critical to note that it's not about settling for a company that checks off enough boxes.

The faster we can help you develop a true informational advantage over other buyers, the more effective you will be able to execute as a firm.

"A billion-dollar fund not spending money may not look great," says Fishburn, "but a billion-dollar fund with poor returns is worse." Contrarily, then, a key component of a fully fledged sector thesis is knowing which deals to kill.

"All firms struggle with finite resources and their allocation," Fishburn says. "The here and now often takes precedence over the formulation of longer-term sector and strategy formulation. Putting together an efficient process to consistently review new themes, develop those that meet your internal criteria, and drop those that do not is the first step in making deal sourcing a priority."

Especially when it comes to technology, it is important to ensure that you have access to the relevant personnel for a business that is not purely tech but is being reshaping via primary innovations related to certain product or service lines

"Creating relationships is important," says Fishburn. "This is a people-based business—likability matters."

It's not talked about as much, but killing deals is a key component of a well-functioning sector thesis.

With relationships in place, it is easier to win the trust of a business that is looking for a holistic partner for the long haul, not just a check.

SNAPSHOT: HOW FORMING A SECTOR THESIS AIDED A FIRST-EVER TECH INVESTMENT



- The scenario: Chicago-based PE firm Pflingsten Partners wanted to make their first-ever investment in drones, a rapidly changing technology with constantly evolving regulations and uses. Pflingsten wanted to focus on drone racing. But they didn't have a firm grasp on this niche part of the drone market, so they turned to Apex Leaders for an industry evaluation.
 - The challenges: Drone racing industry professionals are notoriously hard to reach and at times reluctant to speak about the still uncertain future of the industry. Moreover, where was the true opportunity, in the supply chain or in the end-user solution?
- Steps:
1. Outreach: Apex Leaders was targeted and persistent with outreach and eventually reached sought-after candidates to advise in the formulation of a thesis and help vet an emerging prospect, in the span of eight months.
 2. Identify an opportunity: Post-consultation, Pflingsten discovered a growth opportunity, as parts and drones used in racing have a high resale value, and these can be resold online.
 3. Post-target acquisition, vet market segment: After finding a promising prospect—Lumenier, which manufactures and sells high-end racing drones online—Apex assisted in evaluation. Apex's research team targeted this obscure part of the market, vetting buyers at large and small hobby stores.
 4. Result: Ultimately, through adopting a sector thesis approach, Pflingsten decided to invest in Lumenier, marking their first-ever tech investment. Sufficient growth potential in drone racing was determined, and after speaking with advisors, there was confidence the prospective company provided reputable products and customer service.

METHODOLOGY

PitchBook's information technology (IT) industry is comprised of multiple subsectors, including communications & networking, computer hardware, semiconductors, IT services, software and other. Private equity activity within this report covers all buyout types, PE growth investments and investor buyouts by management. PE-backed exits include secondary buyouts, strategic acquisitions, and initial public offerings (IPOs).

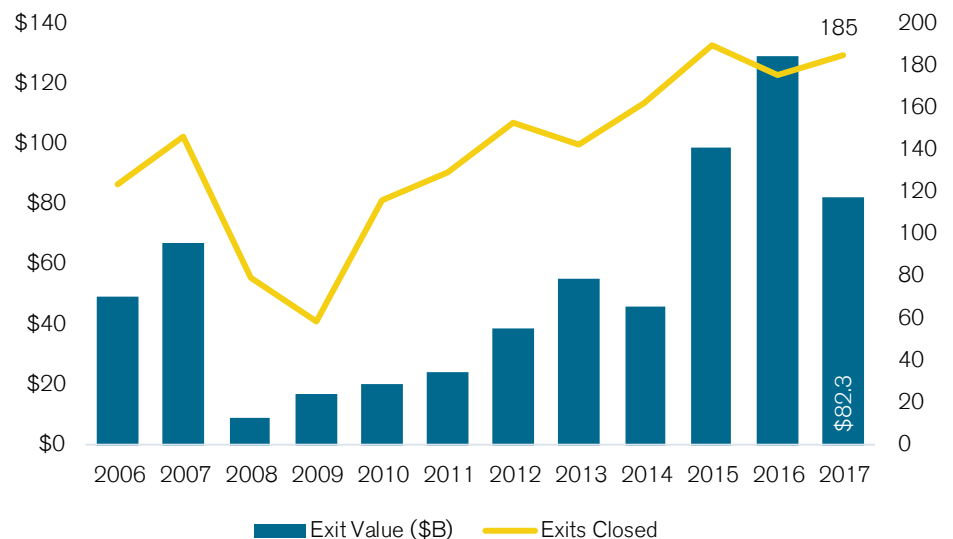
PREPARING FOR THE LONG TERM

As median hold times become prolonged among US PE investments and the exit cycle begins to wane cyclically, secure relationships among trusted advisors and existing resources that can be leveraged across portfolios will become more important. Portfolio monitoring is just one of many hats that key personnel at PE firms—which often tend to run as lean as possible—have to wear. When it comes to adapting efficiently, however, outsourcing to specialists for facilitation of key functions is critical.

“The reality is that specialist expertise is more and more critical as industry knowledge and connections become more niche in the evolving software landscape,” Fishburn states. “We are approaching SaaS 2.0.” An example of the shift toward SaaS 2.0 is the increased consolidation at the top, e.g., Salesforce’s recent agreement to acquire MuleSoft.

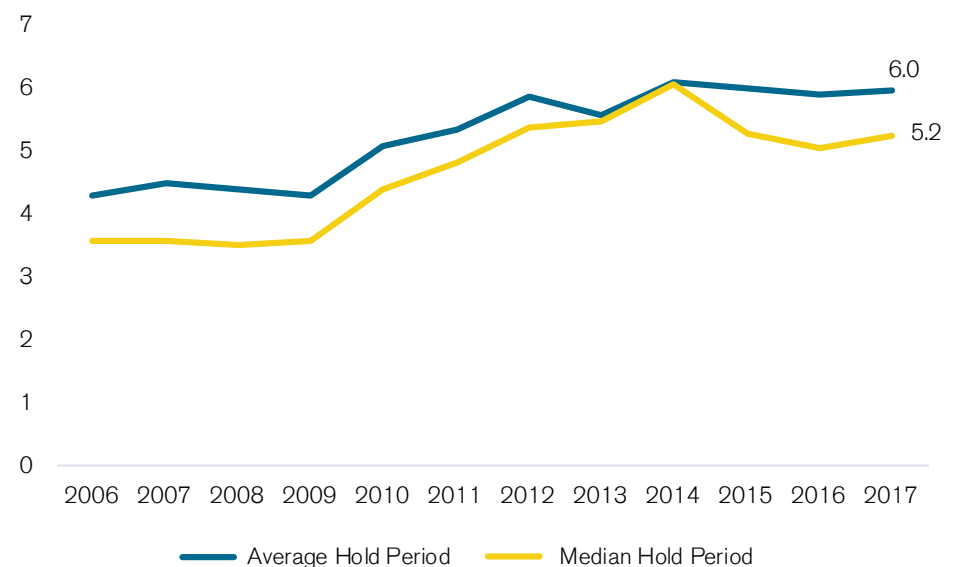
Ensuring that a sector thesis stays intact and style drift does not become problematic when tackling add-ons to existing platforms are ongoing concerns. Moreover, few approaches can remain evergreen as the landscape changes, particularly when it comes to the tech sector. Accordingly, utilizing what was learned with existing portfolio companies that have been acquired via the original sector thesis approach can be a good starting point to focus a revamp. That way, firms can become reacquainted with the methods that have brought success thus far, and can continue to help them evolve to achieve further success down the road.

US PE-BACKED EXIT ACTIVITY IN IT



Source: PitchBook

AVERAGE & MEDIAN US PE HOLD TIME (YEARS)



Source: PitchBook