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Our white paper articles are brought to you by the publishers of **Buyouts Insider**, **Private Equity International**, **Venture Capital Journal** and the prestigious **PE HUB** on topics being discussed during PartnerConnect East.

### Articles within this white paper include:

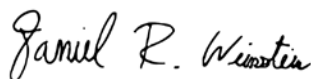
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Thank you for reviewing our white paper and I look forward to connecting at PartnerConnect East!

Kind Regards,



**Daniel Weinstein**  
Program Director





# Thoma Bravo, amid fundraising frenzy, preps debut small-company fund

Thoma Bravo has a family of funds, including its flagship pool, a mid-market focused “Discover” fund and a credit vehicle.

**By Chris Witkowski**

**I**n the fundraising arms race in the private equity tech world, Thoma Bravo is bringing a new weapon to the arsenal.

The firm is gearing up to raise its debut small-company fund, called Explorer. The fund will target up to \$1 billion, two people with knowledge of the firm told Buyouts.

The fund is expected to launch this month, one of the people said, and could have a first close this month, according to an investment report from the Arkansas Teacher Retirement System.

Explorer fund will be led by a team including Principal Carl Press, two vice presidents and two associates, along with the firm’s managing partners, the investment report said. Press joined Thoma Bravo in 2015, before which he was a tech investor at HighBar Partners, an associate in the special situations group at Oaktree Capital Group and an analyst at UBS, the investment report said.

Explorer fund will target investments in software and technology-enabled services companies with investments generally up to \$150 million in companies with revenues ranging from \$30 million to \$150 million, according to the Arkansas investment report.

Thoma Bravo has a family of funds, including its flagship pool, a mid-market focused “Discover” fund and a credit vehicle.

Last year, the firm closed its 13th flagship fund on \$12.6 billion. It closed the second Discover fund on \$2.4 billion in 2018. And it raised \$750 million for its first credit pool last year, and is already in market with its second credit fund targeting \$1 billion, Buyouts’ sister publication Private Debt Investor wrote in September.

The firm is expected to launch its 14th flagship pool this year that could target up to \$15 billion, Bloomberg reported in October.

A spokespeople for Thoma Bravo declined to comment.

Thoma Bravo’s small-company fund comes after the firm’s main rival in the enterprise software sector Vista Equity, raised two small-company funds that it calls “Endeavor” funds. Vista closed its second Endeavor fund on \$850 million in July.

Thoma Bravo is the successor firm to Golder Thoma & Co, launched in 1980 by Carl Thoma and Stanley Golder. Golder Thoma became Golder, Thoma, Cressey, Rauner, according to an investment report from the Los



Courtesy of Getty images

Angeles City Employees’ Retirement System.

GTCR in 1998 split into two firms, one of which was Thoma Cressey Equity Partners, the report said. That firm was formed by Carl Thoma, Bryan Cressey and Lee Mitchell. In 2008, Thoma Cressey Equity was renamed Thoma Bravo after Orlando Bravo joined and Cressey departed, the report said.

Thoma Bravo’s 12th fund had a 14.13 percent internal rate of return since inception as of March 31, 2019, according to performance information from California State Teachers’ Retirement System.

# Market at a Glance: Fundraising is \$100 bln higher than this time last year

Cortec leads the charge as buyout and mezzanine fundraising overall is \$100 billion more than at this point in 2018. But dealmaking has not enjoyed such a robust year.

**By Buyouts staff**

**I**t's been a good year for U.S.-based buyout and mezzanine fundraising. Since the last issue of Buyouts, fund managers added \$6.5 billion to the year-to-date total, currently at more than \$281.4 billion. That's \$100 billion more than at this point in 2018, with still a month left of fundraising in the calendar year.

Cortec Group led the charge with the close of its seventh mid-market fund, which hit its hard cap of \$2 billion. The fund is the largest in the firm's history, nearly twice the size of its previous flagship that closed in 2015.

Sightway Capital was not far behind, raising \$1.2 billion for its first private equity fund, which will focus on financial services and real estate. Sightway Capital is the PE arm of Two Sigma Investments.

Alpine Investors also crossed the billion-dollar threshold, closing Fund VII on its hard cap of \$1 billion. Evercore acted as placement agent while Kirkland & Ellis provided legal counsel.

Healthcare Royalty Partners added to the frenzy with its fourth mezzanine fund, which raised \$659.4 million. So did SK Capital, which closed its debut small cap fund on \$400 million, beating its original \$300 million.



Courtesy of Getty images

Dealmaking has not enjoyed the robust year of fundraising. The 2019 year-to-date total is currently \$154 billion, \$110 billion less in volume than the year-to-date total in 2018.

Only one deal crossed the billion-dollar hurdle:

Blackstone Real Estate Income Trust Inc, a unit of Blackstone, acquired the Bellagio Hotel & Casino from MGM Resorts International for \$4.25 billion. BREIT owns 95 percent while MGM the remaining 5 percent on completion.

# Sustainable investing is good for the planet and the balance sheet

As consumer behavior shifts toward more sustainable products, investors are also finding that the sector pays dividends

By Rebecca Szkutak

**S**ustainable consumer products aren't just for hippies or helicopter parents, but for the mainstream consumer, as many of them search for better options.

Consumer spending behavior has been pivoting toward more sustainable and environmentally friendly options for years. Nationwide sales for these products is expected to reach \$135 billion in 2019 with forecasts predicting as high as \$150 billion in 2021, according to data from the Nielson Company.

With consumer demand continuing to grow, companies and startups are responding, and investors have a flood of new opportunities in the space. People don't just want organic food or chemical-free cleaning products anymore either, they want sustainable clothing, natural and effective beauty products and environmentally friendly transportation.

## Startups are responding

Grove Collaborative, a sustainable cleaning and beauty products company, raised a \$150 million Series D round in September, which brought the three-year-old company to unicorn status. The round was led by Lone Pine Capital, General Atlantic and Glynn Capital.

Sunday, a sustainable direct-to-consumer lawncare company, raised a \$6 million Series A round in August that was led by Tusk Ventures. The round also included Forerunner Ventures and Bullish. The Boulder, Colorado startup grabbed \$9 million in funding altogether within just six months of its

launch in 2018.

New York-based Silas Capital has been investing in many different types of sustainable consumer products since its founding in 2011. These investments include smart grills, beauty products and insect repellent.

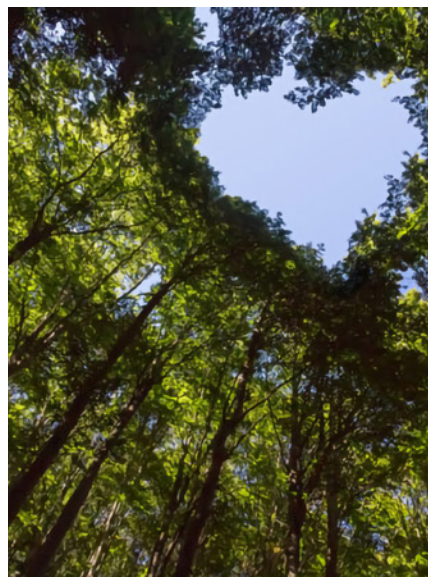
## Duty of investors, entrepreneurs



Courtesy of Getty images

Managing Partner Frank Lin says the firm isn't setting out to exclusively invest in sustainable companies, but those companies have offered the best opportunities.

**"It's become a pretty critical element of our strategy as a firm," Lin says. "While we don't have a formal or defined approach just yet, we still believe that investing in businesses that are doing good is not just the responsible thing to do,**



Courtesy of Getty images

**it's increasingly become, or should be, a duty of this generation of consumer investors and entrepreneurs."**

It's become a pretty critical element of our strategy as a firm," Frank Lin of Silas Capital said.

Silas led an \$8 million investment in Bellroy in April. The Australian leather goods company is a certified B Corporation that looks to create more sustainable leather options.

Silas also led the \$15 million Series A round in Herbivore Botanicals, an organic skincare brand in August. Stage 1 Fund also participated in the round.

Lin says that beauty and personal care have been big driving forces in the sustainable consumer movement.

**D**runk Elephant, a sustainable skincare brand, was acquired for \$845 million in October by Shiseido, a Japanese beauty company. The startup was founded in 2012 and raised one round of \$8.3 million in early 2017.

London's The Craftory is another firm that has built its investing strategy on sustainable consumer brands looking to disrupt the status quo.

*"We believe the challenger brands are here to stay and they are here to succeed," Thiago Rodrigues, a senior partner and "deal crafter" at The Craftory, says. "They are changing the way the consumer companies will have to behave."*

In March, the firm led a \$30 million Series B round in NotCo. The Chilean company creates plant-based alternatives for such foods as mayo, ice cream and milk. Kaszek Ventures, IndieBio and Bezos Expeditions joined the round.

The Craftory has also invested \$15 million into Ruby Love, which creates underwear and bathing suits that offer leak-proof period clothing that don't require the use of single-use feminine products.

**"What we are seeing today in the market is that the new generation, the millennials and Gen X and Z, they are very concerned about the consequences of consumption," Rodrigues says. "My generation was all about having the best product at the most affordable price."**

The "best product" for many consumers now isn't just the most convenient or the cheapest. But to compete, sustainable products can't skimp out on things like customer experience or quality just because they offer a sustainable option, Lin says.

*"So now, there is efficacy and performance in clean and natural brands," Lin says. "Consumers don't want to sacrifice that performance in their cosmetic and skincare brands. There is also very little leeway that you'll have as a brand to just sell an all-natural product that just doesn't work, doesn't perform to acceptable standards, or doesn't taste good."*

#### **Without sacrificing perks**

Nancy Pfund, a founder and managing partner at DBL Partners, agrees that for consumers to switch from their current go-to product they most likely won't be willing to give up any of the perks.

**"Consumers want their sustainable cake and eat it too," Nancy Pfund, DBL Partners.**

DBL Partners recently led a \$40 million Series B round into Bellwether Coffee, which created a roaster that eliminates the carbon emissions that come with traditional natural gas-powered coffee roasters.

While this machine takes out the harmful use of gas, the consumer won't know the difference, Pfund says,



Courtesy of Getty images

because they will still be able to smell the coffee roasting and get the same benefits.

FusionX, Congruent Ventures, Tandem Capital and XN Ventures also participated in the Series B funding of the Berkeley company.

"The market is strong for companies that can offer a superior customer experience while driving various sustainability goals," Pfund says. "That's the sweet spot. I don't think people are willing to take inferior customer experiences and drive sustainability."

Investors investing in these brands aren't doing so for a focus on impact. These companies are also able to produce strong returns.

*"It's not a reason not to do as well. It's not an excuse to have lesser profit," Lin says. "You should be able to build a high-growth business without sacrificing anything. It shouldn't be used as an excuse to do poorly."*

Lin gave the example of Boll and Branch, an organic sheet company. Silas participated in the company's





Courtesy of Getty images

\$7 million Series A round in 2016 and \$4.5 million Series B round in 2017. The firm just exited this year when the company received a \$100 million private equity infusion from L Catterton.

The RealReal, a luxury consignment company, successfully raised \$300 million for its IPO in June after raising \$349 million over eight years from such investors as DBL Partners, Canaan Partners, e.Ventures and others.

Pfund says that the IPO of the RealReal in June was a great example. "It's a circular economy," she says. "You are putting luxury goods into multiple economic cycles. You are using stuff over and over and you are getting a terrific experience and quality designer goods. What's not to like about that?"

Nearly half of consumers, 48 percent, said they plan to change their consuming habits to be more sustainable and environmentally friendly, according to Nielson data.

**"We always see a huge chunk of the market, 30 percent of this market, is getting away from those big companies and going into challenger brands," Rodrigues says. "I think that's why there is a lot of participation from VCs in the big waves of tech. A lot of money is being thrown."**

As consumer demand continues to grow for these sustainable companies, investor demand should trend right with it.

**"That no sacrifice-approach is extremely popular right now. Companies that are able to deliver on both sides of that are going to be highly valued," Pfund says. "That's where the consumer wants to be right now. They want to have their sustainable cake and eat it too."**

# Senator Warren-backed bill would fundamentally change private equity

- Bill is thorough scouring of how the industry operates
- Goes after carry, interest deductibility, even lenders
- Would make firms liable for employee pensions
- Rod James

By Chris Witkowski

**D**on't look now, but politicians are making private equity a political football as the U.S. moves into a presidential election year in 2020.

Senator Elizabeth Warren of Massachusetts co-wrote a bill called the Stop Wall Street Looting Act of 2019 that would fundamentally change the way private equity operates. The bill attacks two historic pillars of the industry: the tax treatment of carried interest and the ability of PE managers to write off the debt they use to buy companies.

The bill also would make private equity firms much more liable for the companies they buy, including for worker pensions in the case of bankruptcies.

**"Far too often, the private equity firms are like vampires – bleeding the company dry and walking away enriched**

**even as the company succumbs," Warren wrote in a Medium post Thursday. Warren has been a vocal critic of Wall Street since the global financial crisis. The Looting bill also reiterates Warren's proposal to break up big banks to separate investment banking from consumer financial services.**

*"These changes would shrink the sector and push the remaining private equity firms to make investments that help companies rather than stripping them down for parts. Firms that make bad investments would be held accountable instead*



Courtesy of Getty images

*of walking away from the wreckage with millions in fees and payouts. My plan would stop one of the main sources of Wall Street looting," Warren wrote.*

American Investment Council, the industry's lobbying group, said in a statement: "Private equity is an engine for American growth and innovation—especially in Senator Warren's home state of Massachusetts. Extreme political plans only hurt workers, investment, and our economy."

Private equity was in the political crosshairs in the 2012 election, when rivals of Mitt Romney attacked his



private equity career. The furor from that period eventually died down, though around the same time the SEC stepped up its scrutiny of the industry because of mandates in the 2010 Dodd-Frank Financial Reform Act.

Other sponsors on the legislation include Senators Tammy Baldwin of Wisconsin and Sherrod Brown of Ohio, along with Representatives Mark Pocan of Wisconsin and Representative Pramila Jayapal of Washington.

### Particulars

The Warren-backed bill would do several things, including closing the so-called carried interest tax loophole. Carried interest, the share of profits private equity managers collect on sales of companies, is taxed at the capital gains rate of up to 20 percent, much lower than the regular income rate that reaches as high as 37 percent. Critics believe carried interest is income and should be taxed as such.

The tax treatment of carry has long been a target of mostly liberal politicians, though President Donald Trump during his presidential campaign briefly flirted with the idea of changing the tax treatment to the higher rate.

The proposal also calls for a change of tax rules to hinder firms' ability to deduct the cost of interest payments from portfolio companies' tax bills. Private equity firms buy companies by using equity from their funds, and debt the target company takes on its own balance sheet. Firms are able to write off interest on the debt, which has long been factored into the price that firms are willing to pay for their target assets.

Limiting the interest deduction affects a company's cash flows, which in turn alters the company's long-term value as an investment asset, Buyouts previously reported.

Congress already changed the tax treatment of interest expenses in 2017, limiting firms' ability to deduct such costs from portfolio companies. But the Republican-led tax change also included a reduction of the corporate tax rate to 21 percent from 35 percent, which many in the PE world saw as a wash.

The bill would also make private equity firms responsible for pension obligations of the companies they buy and eliminate private equity firms' ability to charge portfolio company monitoring fees, Warren said in her post.

This would occur three ways: it would strengthen regulators' ability to claw back assets considered fraudulently transferred out of bankrupt entities; it makes individual PE partners, rather than the funds invested in the companies, liable for post-bankruptcy obligations like pensions; and it would give higher priority to employee claims in a bankruptcy, according to Adam Levitin, professor of bankruptcy law at Georgetown University, on a call about the bill Thursday.

It would also limit firms' ability to collect dividends on recapitalizations of portfolio company debt, Warren wrote. This would work by barring a target company from issuing any dividends for the first 24 months after a buyout.

The bill also goes after the financiers of PE deals—forcing lenders and investment managers that lend into buyouts to retain a share of the debt, “to make it harder for them to leave others to pay the consequences if things go wrong,” according to a summary of the bill.

Finally, the bill would force managers to be transparent about fees and performance and prevent firms from requiring investors to waive their fiduciary obligations, Warren wrote.

The Illinois state pension system, a



Courtesy of Getty images

major investor in private equity, would like to see more transparency around fees and expenses even beyond the headline terms generally available to the public, according to Illinois State Treasurer Michael Frerichs, who was also on the call Thursday.

“We want something robust: companies in the portfolio, total assets, average debt-to-income ratio of portfolio companies, number of portfolio companies in default or bankruptcy, fees, expenses, carried [interest] claims,” Frerichs said. “It’s better for capitalism if people are competing on the same playing field.”

The bill is far from law. It’s been introduced in the House of Representatives and Senate and will go into hearings across various committees in the House like those governing securities rules, bankruptcy and tax law. It requires a vote in the committees to make it to the House floor, where it would receive a full vote. If it survives that process, it would move to the Senate and go through a similar process.

# Vista sets ascending carried interest based on performance in next middle-market fund

New Jersey pension documents say the carry will be calculated from a cumulative distributions multiple, but will cap at 30 pct.

By Justin Mitchell

**V**ista Equity Partners' latest fund charges a premium carry that increases in increments depending upon the fund's returns.

Meeting documents from the New Jersey State Investment Council indicate Vista Foundation Fund IV charges the typical 20 percent carry until cumulative distributions represent a 2.5x multiple.

If cumulative distributions are exactly 2.5x, the fund then charges a 25 percent carry.

If the cumulative distributions represent a multiple greater than 2.5x but less than 3.0x, the carry will be equal to the product of that multiple rounded to the nearest tenth and multiplied by 10. (In other words, if the return were 2.66 percent, the carry would be 27 percent).

Finally, if the multiple is 3.0x or higher, the carry stops at 30 percent. The fund also has an 8 percent hurdle rate. Its management fee is 2 percent. Vista has set this type of carry structure in past Foundation funds that

reach premium carry depending on performance, sources said.

The fund is targeting \$3.25 billion with a \$4 billion hard-cap, according to the documents. It could raise as much as \$4.5 billion, though, as Buyouts has reported. The fund launched last fall. Its investments will focus on enterprise software, data and technology-enabled companies.

New Jersey approved a \$100 million commitment to Fund IV at its meeting Wednesday, staff told Buyouts.

Illinois Municipal Retirement Fund has also invested \$75 million, according to data from sister publication Private Equity International.

The New Jersey documents also have performance data on the three previous Vista Foundation Funds. As of June 30, 2019, Fund I has a 2009 vintage, a 39.1 percent internal rate of return, a 2.94x net total value to paid-in multiple. Fund II has 2013 vintage, a 17 percent IRR and a 1.74x net TVPI. Fund III, a 2016 vintage, generated a 9.1 percent IRR and a 1.13x TVPI.



Courtesy of Getty images

Vista was founded by Robert Smith in 2000. The firm did not respond to a request for comment for this story.

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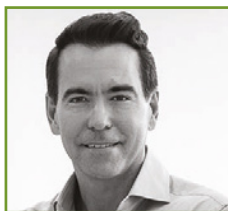
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