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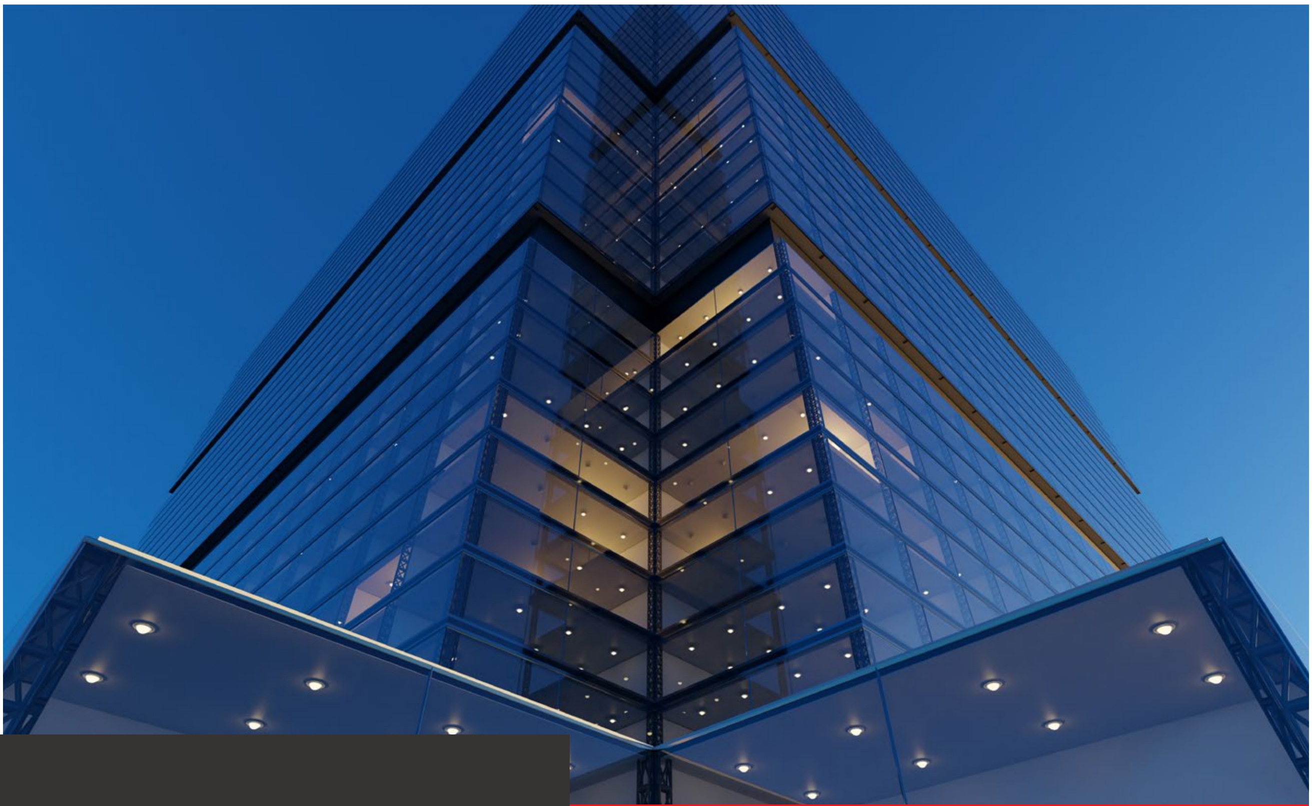

Private Equity Newsletter

Contents

SG Analytics' premier private equity monthly newsletter and your window to the latest trends, deals, and strategies reshaping the industry. Each edition of Axia will bring you an exclusive feature article and topical news developments with our experts dissecting critical topics, offering insights and commentary that go beyond the headlines.

PE Spotlight on Japan: Seizing New Opportunities

In contrast to the global PE landscape, which witnessed a slowdown over the past year, Japan stood as an outlier. The country has emerged as an attractive investment opportunity due to a combination of macroeconomic and microeconomic tailwinds. Consequently, several PE firms, including Blackrock, Carlyle, and Bain Capital, have been actively expanding their presence and integrating Japan into their investment strategies.

In 2023, the overall value of PE deals in the Asia-Pacific region dropped to its lowest level since 2014, declining by more than 23% YoY, according to Bain & Company. In contrast, the deal value in Japan experienced a significant increase of 183% YoY, making it the only PE market in the Asia-Pacific region to have seen growth in 2023.

In May 2024, the Carlyle Group raised $2.8 billion for its fifth Japan buyout fund, marking the largest fund dedicated to a buyout strategy targeting the Japanese market, according to Preqin. KKR and Bain Capital announced plans to double their investments in Japan over the next five years. In its 2Q24 outlook, BlackRock made only one change to its stock allocation by increasing its overweight position on Japanese stocks, further emphasizing its focus on opportunities in the country.

China, which has traditionally dominated PE allocations in Asia, has seen a retreat from international investors amid US-China political tensions and concerns about slowing economic growth. Global PE and VC investments in mainland China dropped to a five-year low of $68.8 billion in 2023, according to S&P Global. This shift has freed up a substantial budget for alternative Asian destinations, with Japan becoming an increasingly attractive option for a number of reasons.

Japan's macroeconomic landscape is a positive indicator of sustainable economic growth. In March 2024, the Bank of Japan announced its exit from eight years of negative rate policy, aiming to foster a healthy inflation rate after years of stagnation. Additionally, recent wage negotiations have shown promising signs of a structural shift, with significant wage increases indicating a move toward an inflationary environment.

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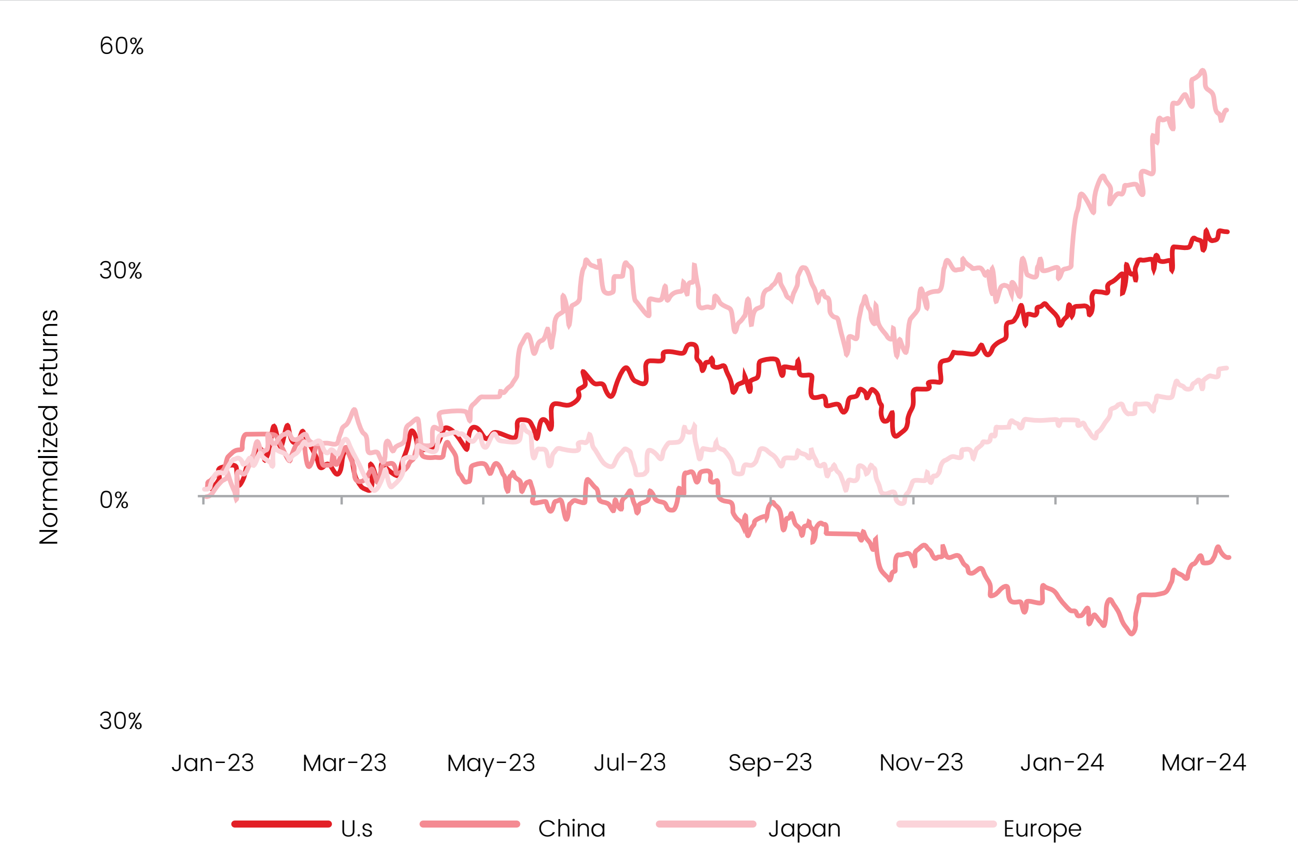
Japan has generated strong returns, contributing to the growing LP appetite for the region's PE. According to a survey by the Japan Private Equity Association, PE funds in Japan outperformed the TOPIX Total Return Index by 9.2% between 2012 and 2021. Additionally, Japanese equities have been outperforming Europe, China, and the US, primarily driven by stellar corporate profit growth, according to Blackrock.

Figure 1: Japan Has Been Outperforming Europe, China, and the US



Source: Blackrock

Japan's resilience has been driven significantly by improved corporate governance. The Japanese government recently introduced various measures to enhance domestic productivity and global competitiveness, such as revising the Stewardship and Corporate Governance Code. Additionally, the Tokyo Stock Exchange (TSE) has been pushing companies listed on its Prime and Standard Markets to adopt management practices considering the cost of capital and stock prices. This focus on nearly half of TSE-listed companies trading below book value has put pressure on leadership teams to increase corporate value. As a result, investors are increasingly holding directors accountable for perceived shortcomings.

Japan's population has been both aging and shrinking, with many family-owned businesses. The average CEO in Japan was 60.4 years old in 2022, according to Teikoku Databank, while the nationwide absence rate of successors was 57.2% as of 2022. Consequently, business succession deals have comprised over 60% of PE deals in Japan, as per Deloitte. As business owners recognize PE as a solution to their succession challenges, this trend is expected to continue. Additionally, the realization that public markets may not be suitable for many family owned businesses has fueled the growth of public-to-private management buyouts (MBO). In FY2023, the value of MBOs in Japan quintupled YoY to a record $9.7 billion, with 18 deals recorded, the highest in 13 years, according to Nikkei Asia.

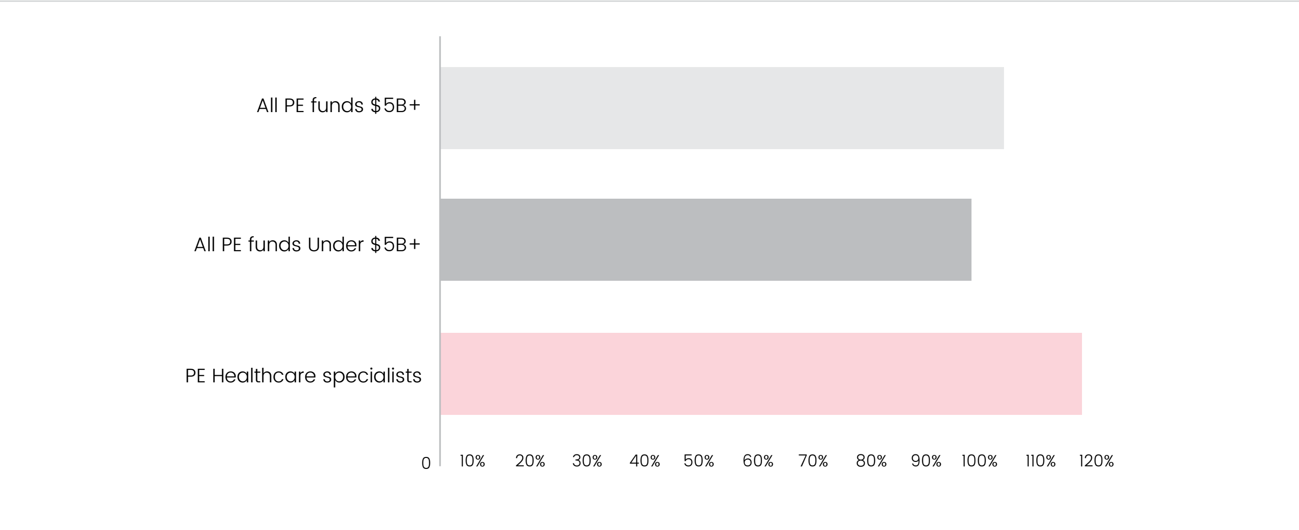
Japan's PE market remains robust due to the availability of low-cost debt capital and a resilient economy. Firms such as BlackRock, Carlyle, and Bain Capital have expanded their presence, highlighting the region's attractiveness. Key growth drivers include Japan's exit from negative interest rates, rising wages, and strong corporate governance reforms. Additionally, the aging population's business succession challenges have led to a surge in PE deals. Japan's resilience and growth potential make it a prime destination for PE investments.

Monthly News and Analysis

Healthcare Dominates Fundraising Activity

Despite the challenging environment for emerging managers attempting to raise capital, healthcare fundraisers have been an exception. According to Pitchbook, healthcare PE funds have surpassed their capital-formation goals, raising approximately 114% of their initial target sizes since early 2023. In contrast, funds targeting up to $5 billion across all industrial sectors have reached just 94% of their target.

Figure 2: Closed Funds as a Proportion of their Target, Weighted Average, 2023–Present



Source: Pitchbook

Healthcare has become a focal point for PE strategies, driven by its reputation for acyclicity, sustained tailwinds, and innovation opportunities. Several factors contribute to this heightened interest, including an aging population, the imperative to improve patient experience, and the potential for advancements in AI and personalized medicine. A survey conducted by Coller Capital found that 87% of LPs consider healthcare and pharmaceuticals attractive sectors for PE investment over the next two years. According to Pitchbook, fundraising activity in healthcare specialist PE reached a record high in 2023, totaling $18.3 billion, with this surge notably concentrated on larger funds. This sustained growth in fundraising persists despite regulatory headwinds, including increased scrutiny of PE's role in the healthcare sector due to concerns about antitrust practices, declining care standards, and rising prices. However, amid broader economic and regulatory challenges, the robust performance of healthcare PE funds highlights the sector's resilience and attractiveness.

Carlyle, KKR Bid For $10 Billion Portfolio of Student Loans

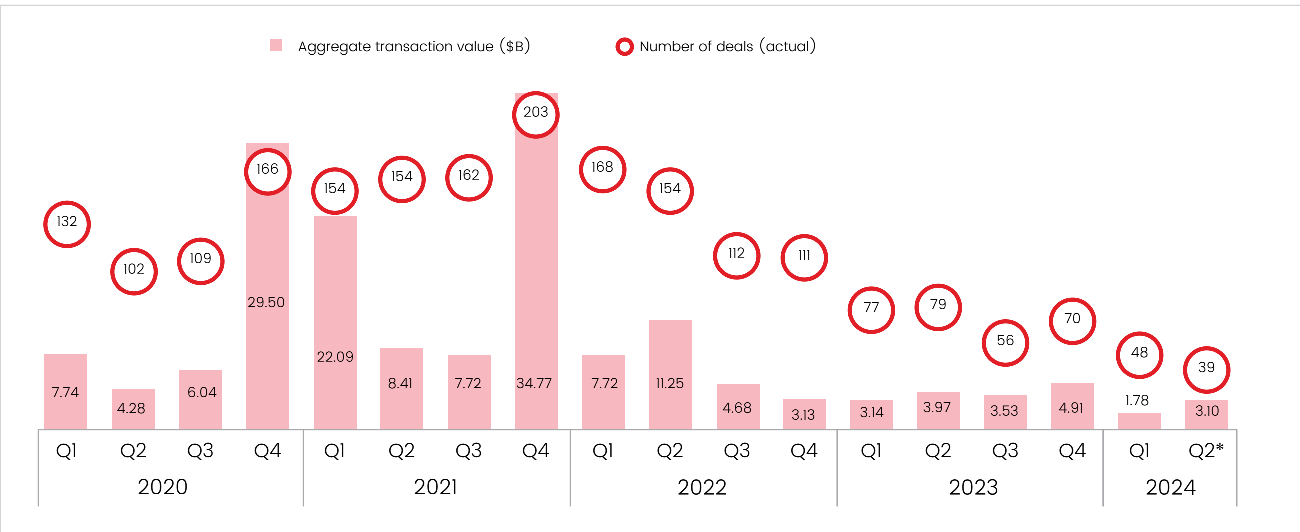
Carlyle and KKR have emerged as final bidders for a $10 billion US student-loan portfolio from Discover Financial, according to the Financial Times. The two asset managers are collaborating on their bid for the portfolio, as private investment firms try to step in to fill the lending gap left by the withdrawal of traditional banks.

This deal represents PE's growing appetite to incorporate asset-based finance (ABF) into their credit strategies as firms expand beyond traditional lending. A key characteristic of ABF is the resilience of the asset classes during periods of market volatility. According to Apollo Global, investment-grade asset-backed securities have shown almost no defaults, in contrast to corporates, which tend to be more susceptible to idiosyncratic or sector-specific risks. The appeal of these investments is further enhanced by their attractive returns, with KKR estimating a weighted average internal rate of return of 14%. Integrating ABF into investment portfolios offers several advantages, including diversification, low correlation, and stable cash flows. A significant boost comes from the insurance industry, which demands long-term high-grade investments to match its liabilities. Major PE firms now own nearly 9% of the US life insurance industry's assets, a substantial rise from only 1% in 2012, according to AM Best.

Real Estate PE Investments at a Five-year Low

PE and VC deal value in real estate plummeted to its lowest level since at least 2019, amid ongoing concerns about the direction of interest rates, inflationary pressures, and geopolitical uncertainty. The YTD through May 28, 2024, aggregate deal value was $4.88 billion, down from $6.55 billion during the same period in 2023, and an 82% decline from the same period in 2021, according to S&P Global.

Figure 3: PE/VC-backed Investments in Real Estate



Source: S&P Global

The decline in investment in the sector is primarily linked to rising interest rates and heightened risks in the office sector, particularly in the US. The year, which began with high optimism for about five to six rate cuts, has now tempered to potentially one. Despite these challenges, US and Canada secured the largest number of PE-backed investments in 2024, totaling $2.62 billion, while Europe recorded the highest number of deals at 39, says S&P Global. Amid these sectoral challenges, data centers has emerged as an investment opportunity, driven by the widespread adoption of artificial intelligence (AI). According to McKinsey, the demand for data centers is forecasted to grow 10% per year until 2030, with the US accounting for roughly 40% of the global market. This creates a valuable opportunity for PE funds in real estate.

Investcorp Embraces Blockchain for Second GP-stakes Fund

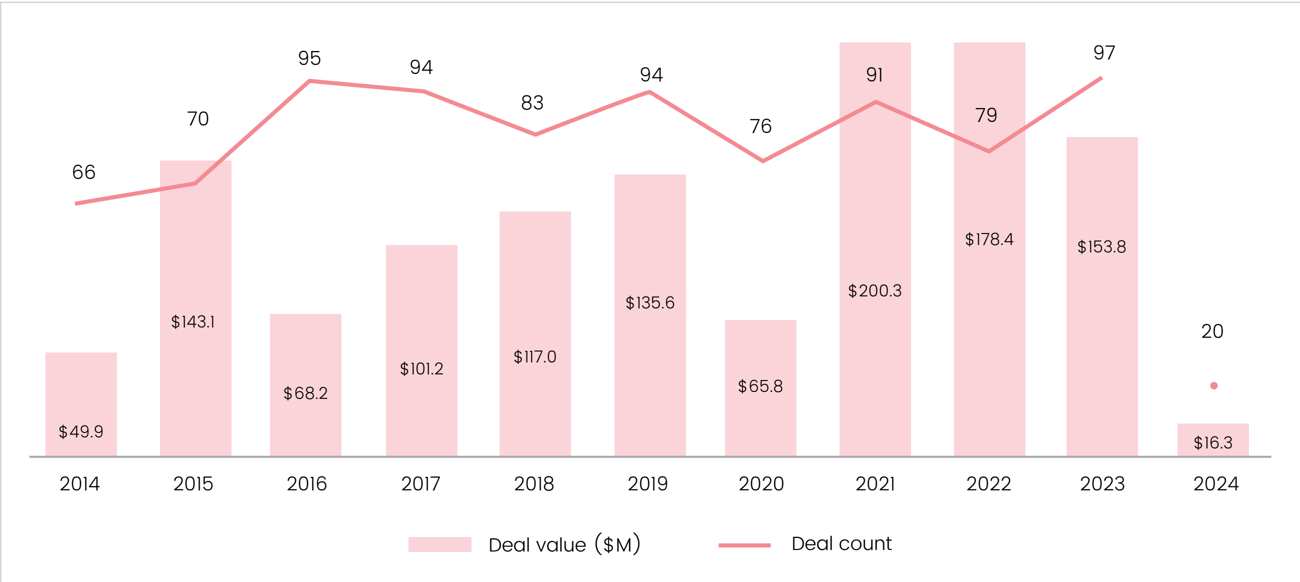
Investcorp, a Bahrain-based private equity firm, and Securitize, a California-based financial technology company specializing in tokenizing real-world assets, have entered into a strategic partnership aimed at exploring opportunities for fund tokenization. The initiative begins with Investcorp's Strategic Capital Group (ISCG), known for acquiring minority interests in alternative GPs. ISCG has established partnerships with mid-sized GPs across various sectors including buyouts, secondaries, structured equity, private credit, and real assets.

Through Securitize's advanced tokenization technology, this partnership facilitates qualified investors' access to GP staking strategies. GP staking has gained significant popularity in recent years as investors look to capitalize on the growth of private markets. Tokenization offers numerous advantages such as increased liquidity, reduced transaction costs, enhanced accessibility, and improved transparency with the potential of unlocking $400 billion in additional annual revenue for the alternatives industry, according to Bain & Company. Asset managers such as KKR and Hamilton Lane have already utilized blockchain technology to broaden wealthy individuals' access to alternative assets. Investcorp's tokenized fund sets a lower barrier to entry with a minimum ticket size of $20,000, which is significantly lower than what institutional investors typically require to enter such funds.

Middle Market Sees an Uptick in Take-privates

The middle market has seen a notable uptick in take-private deals. According to Pitchbook, sponsors have announced or completed 15 take-private transactions under $1 billion, a significant increase from the eight transactions seen in the same size range in 1Q23. This trend underscores the cheaper valuations of small-cap public companies and the imperative for PE buyers to deploy capital effectively.

Figure 4: PE Take-private Deal Activity



Source: S&P Global

PE firms are increasingly focusing on take-private deals. According to a 2023 global survey of 100 senior-level PE executives by Dechert, 94% indicated their intention to pursue take-private transactions, a substantial rise from just 13% the previous year. The investment environment appears favorable for such deals, especially in the sub-$1 billion segment, according to Pitchbook. This sentiment is reinforced by the Russell 2000 Index's underperformance relative to the S&P 500, with returns of 16.7% and 27.6%, respectively, on a trailing 12-month basis as of the 1Q24 close. With expectations of moderating inflation and potential reductions in financing costs anticipated in the 2H24, PE firms targeting companies in this valuation range are expected to benefit further. These firms are well positioned to rejuvenate middle-market companies that are too small for public markets and burdened by the high costs associated with maintaining public status.

Deals Flash

Audax Exits ELM Home & Building Solutions

Audax, a Boston-based PE firm, has exited its New Jersey-based ELM Home & Building Solutions (ELM). Great Day Improvements, a Macedonia-based direct-to-consumer home remodeling company, will now incorporate ELM's LeafGuard brand, known for its one-piece gutter-protection system, and the Englert roofing products business. Englert, operating within the ELM platform, specializes in vertically integrated manufacturing of metal roof and gutter systems for residential and commercial markets, serving distributors, architects, contractors, and building owners across the US. LeafGuard is a branded one-piece gutter-protection solution sold directly to consumers. Audax originally acquired ELM in March 2019 through its sixth flagship fund.

Truelink Acquires Air Distribution Technologies

Truelink Capital, a Los Angeles–based PE firm, has acquired Air Distribution Technologies, a Texas-based air management and filtration solutions space, from Johnson Controls, an Ireland-based company that produces electronics and HVAC equipment. With a workforce of over 4,500 employees and operations spanning more than 25 global locations, Air Distribution's portfolio includes prominent brands such as Koch Filter, Titus, Ruskin, Krueger, PennBarry, and Tuttle & Bailey, catering to a diverse customer base. Johnson acquired Air Distribution in 2014, integrating it into its Global Products business segment. This transaction represents Truelink's fifth acquisition since its establishment in 2022, focusing on investments in the industrials and tech-enabled services sectors.

Caymus Equity Exits TriplePoint MEP

Caymus Equity Partners, an Atlanta-based PE firm, has exited the Ohio-based provider of HVACR services, TriplePoint MEP, to Stellex Capital Management, a New York-based PE firm. TriplePoint operates as a non-union provider offering HVACR installations, maintenance, repair, design, and consulting services primarily to commercial clients across a footprint spanning over 10 states in the Midwest and Southeast regions. Under Caymus Equity's ownership, TriplePoint expanded significantly, achieving status as one of the top 10 mechanical contractors in the US. Caymus Equity acquired TriplePoint in 2018, overseeing substantial growth for the company. Through strategic acquisitions and the implementation of industry best practices across its portfolio, TriplePoint achieved an impressive organic increase in EBITDA, averaging close to 50% across its acquired entities.

Rockbridge Makes Majority Investment in Vici Media

Rockbridge Capital, an Ohio-based PE firm, has made a majority investment in Vici Media, a Pennsylvania-based provider of white-label digital marketing and advertising solutions. This investment marks the establishment of a new digital media platform under Rockbridge, signaling its strategic intent to expand further within the industry. Vici Media collaborates with traditional local media companies and independent agencies across the nation, empowering them to deliver a comprehensive array of digital marketing products and services to small and mid-sized local businesses. Founded in 2014, Vici Media offers white-labeled solutions that encompass sales training, digital media planning, online ad purchasing, reporting, and campaign optimization across multiple platforms.

Trilantic North America Invests in SOFIE Biosciences

Trilantic North America, a New York-based PE firm, has invested in SOFIE Biosciences, a Virginia-based radiopharmacy and contract development and manufacturing company. The investment was made in partnership with SOFIE's founding team, who will retain a significant equity stake and remain in leadership roles within the business. SOFIE Biosciences operates in 15 locations across the US and manufactures over 567,000 doses annually for its partners and customers. The investment from Trilantic is aimed at supporting SOFIE Biosciences in executing various growth initiatives. These include expanding capacity and points of presence to enhance patient access to its expanding portfolio of radiopharmaceutical products.

ArchStar Capital Acquires Tess Oral Health

ArchStar Capital, a Minneapolis-based PE firm, has acquired Tess Oral Health, a Wisconsin-based manufacturer of FDA-approved, custom-imprinted toothbrushes, dental kits, and oral hygiene products for dental and orthodontic practices. This acquisition marks a strategic initiative aimed at accelerating Tess Oral Health's growth trajectory. ArchStar Capital plans to enhance Tess Oral Health's sales, marketing, and operational capabilities through continued investments in the company. Founded in 1989, the company currently has a workforce of 21 employees who operate quality and quick proprietary systems and processes.

Liberty Lane Acquires Superior Huntingdon

Liberty Lane, a New Hampshire-based PE firm, acquires Superior Huntingdon, a Kentucky-based fiberglass manufacturer. Superior Huntingdon, previously a portfolio company of Stonewood Capital Management, is a manufacturer of custom and standard-formulated fiberglass continuous filament mats and Conformat branded reinforcements, as well as Surmat branded veils. The company's products are widely utilized in various sectors, including power and energy transmission and distribution, storage and management, infrastructure, building products, transportation, marine end markets, and other advanced composite applications. This acquisition positions Superior for significant growth in an industry benefiting from rapid advancements in materials science and product technologies as the demand for fiberglass composite materials is increasing, driven by environmental regulatory imperatives and trends in ESG/sustainability.

Banyan Capital Acquires Stagevision

Banyan Capital, a Canadian PE firm, has acquired Stagevision, a Canadian audiovisual company. This acquisition marks Banyan's third platform investment through Banyan Committed Capital LP, an evergreen investment vehicle established in December 2021. Founded in 1984, Stagevision offers audiovisual, staging, and event management services for live, virtual, and hybrid events. Headquartered in Mississauga, Ontario, Stagevision boasts a well-recognized customer base in both Canada and the US. This partnership represents a significant milestone, with the objective of expanding the business throughout North America.

Palladium Equity Sells Trachte to nVent

Palladium Equity Partners, a New York-based PE firm, has sold its majority stake in Trachte, a Wisconsin-based provider of highly engineered protection and control buildings, nVent Electric, a UK-based electrical services business, in a $695 million transaction. Trachte's products and services play a crucial role in safeguarding essential controls, equipment, and infrastructure for electric utilities, data centers, and other commercial and industrial customers. The company's success is driven by ongoing technological innovation, quality improvements, and strategic partnerships with end users, consulting engineers, contractors, OEMs, and value-added resellers. Palladium, which specializes in transforming family and founder-owned businesses, acquired its majority stake in Trachte in 2020.

Greenbriar Equity Acquires Renuity

Greenbriar Equity Partners, a New York-based PE firm focused on the services and manufacturing spaces, has acquired Renuity, a Florida-based tech-enabled home services platform. Renuity was previously a portfolio company of York Private Equity, the private investment arm of York Capital Management. Founded in 2019, Renuity was established to bring together top-tier home service providers from across the US. The company's tech-enabled platform offers a wide range of high-demand replacement and remodeling products and services. With the support of an experienced management team, Renuity is committed to delivering exceptional customer experiences to homeowners nationwide who rely on the company for their home improvement projects.

Upcoming Events

ACG NY PE Summit	22–23 July, 2024	50 South Fairview Avenue Montauk, New York
Pension Bridge Private Equity Exclusive 2024	22–24 July, 2024	The Ritz-Carlton Chicago, Chicago
Private Equity Chicago Forum	30 - 31 July, 2024	University Club of Chicago, Chicago

TRENDS AND STATS

June Middle Market Deal Summary

41.5%
of the deals were made in the Business Products and Services (B2B) sector

67%
of the B2B deals were in Commercial Services

21%
of the deals were in the Information Technology sector

66%
of the IT deals were in Software

Texas
experienced the most dealmaking activity, followed by Florida

68%
of the deals were buyout deals

Figure 5: June PE Middle Market Deal Summary

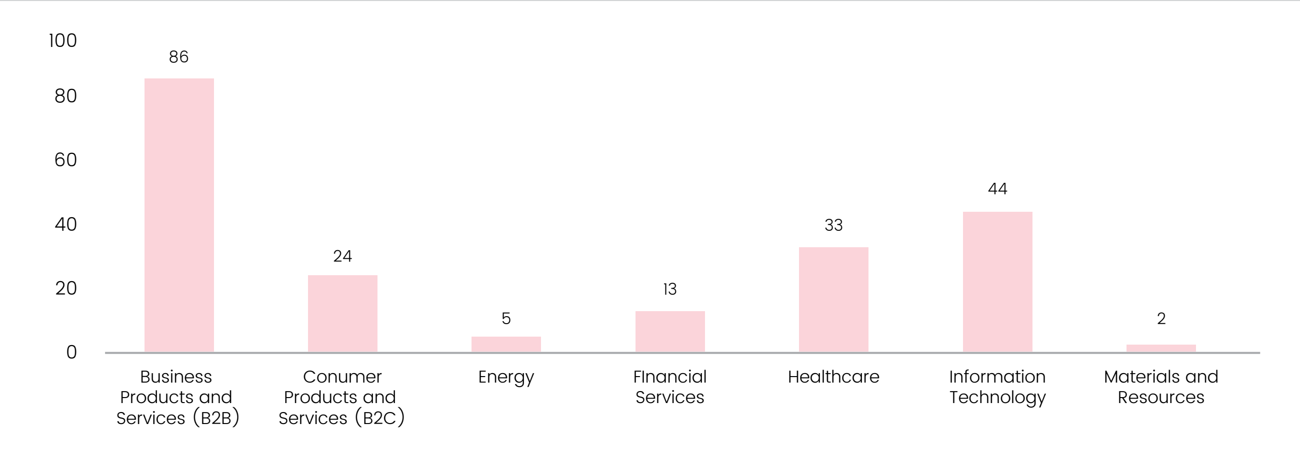


Figure 6: Business Products and Services

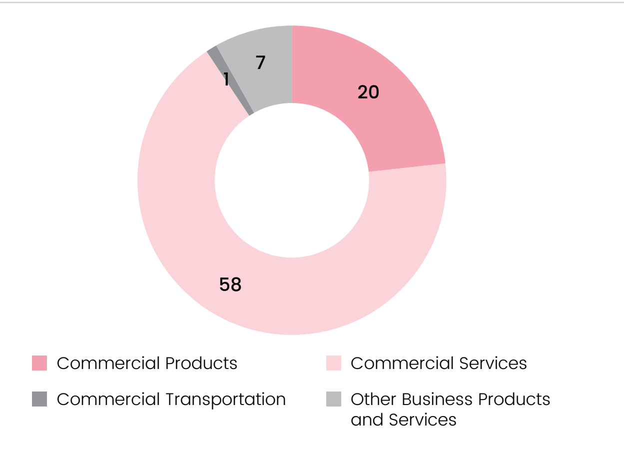
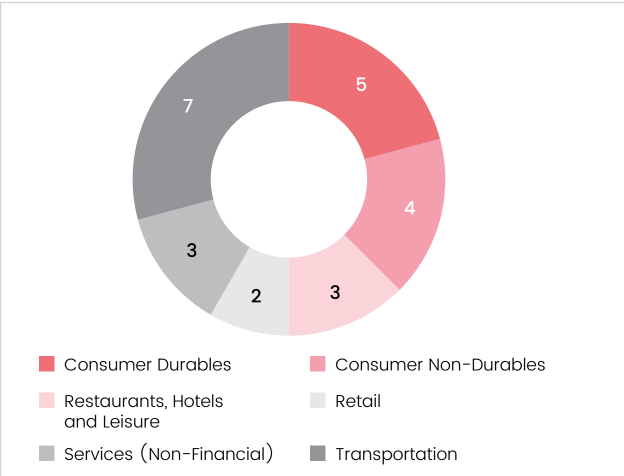


Figure 7: Consumer Products and Services



Data as of July 4, 2024

Source: Pitchbook

Note: This dataset specifically targets investor fund preferences within the $2-8 million EBITDA range. It is important to note that the summary provided focuses solely on these investor preferences and does not include details related to deal sizes.

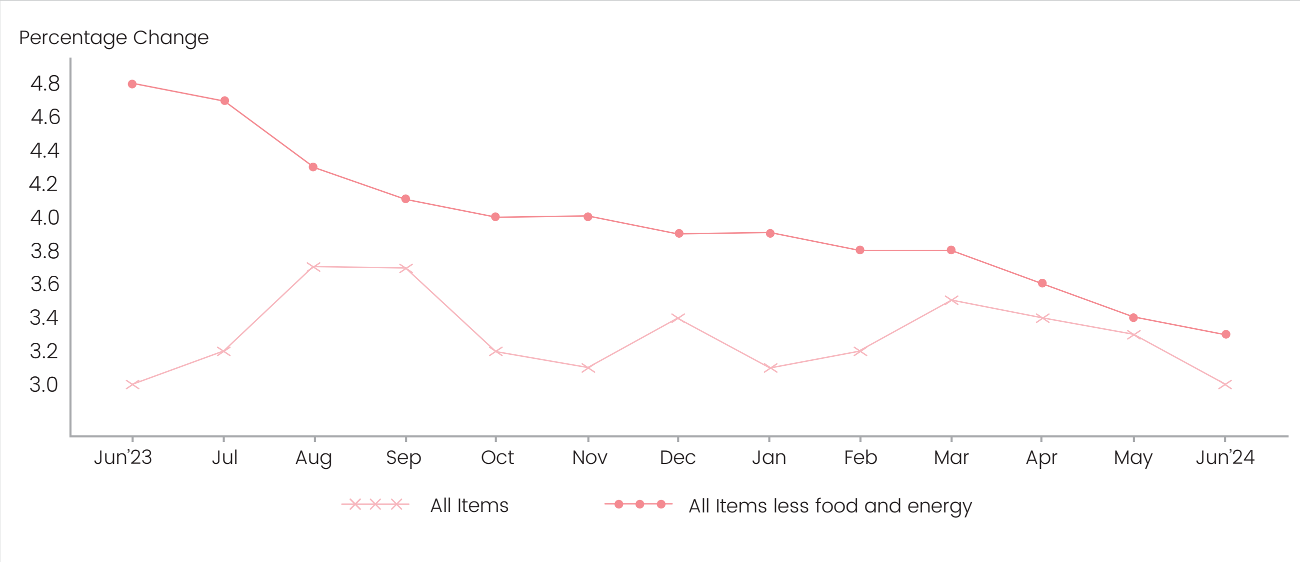
S&P Listed Private Equity Index

S&P Listed Private...	226.41	+53.73	↑ 31.12%
S&P 500	5,572.85	+1,163.32	↑ 26.38%
Dow Jones Industri...	39,344.79	+5,400.39	↑ 15.91%
Nasdaq Composite	18,403.74	+4,718.26	↑ 34.48%

Data as of July 9, 2024

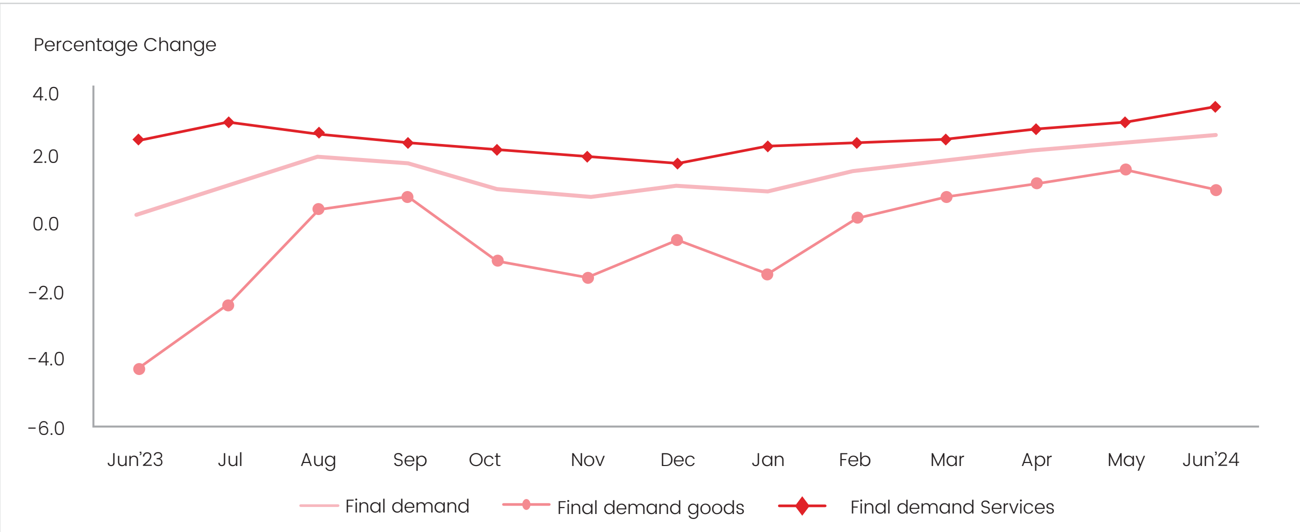
Index	Month-over-Month	YTD
Consumer Price Index	-0.1%	3.0%
Producer Price Index	0.2%	2.6%

Figure 8: 12-month Percent Change in CPI For All Urban Consumers, Not Seasonally Adjusted



Source: US Bureau of Labor Statistics

Figure 9: 12-month Percent Change in Selected PPI Final Demand Price Indexes, Not Seasonally Adjusted



Source: US Bureau of Labor Statistics

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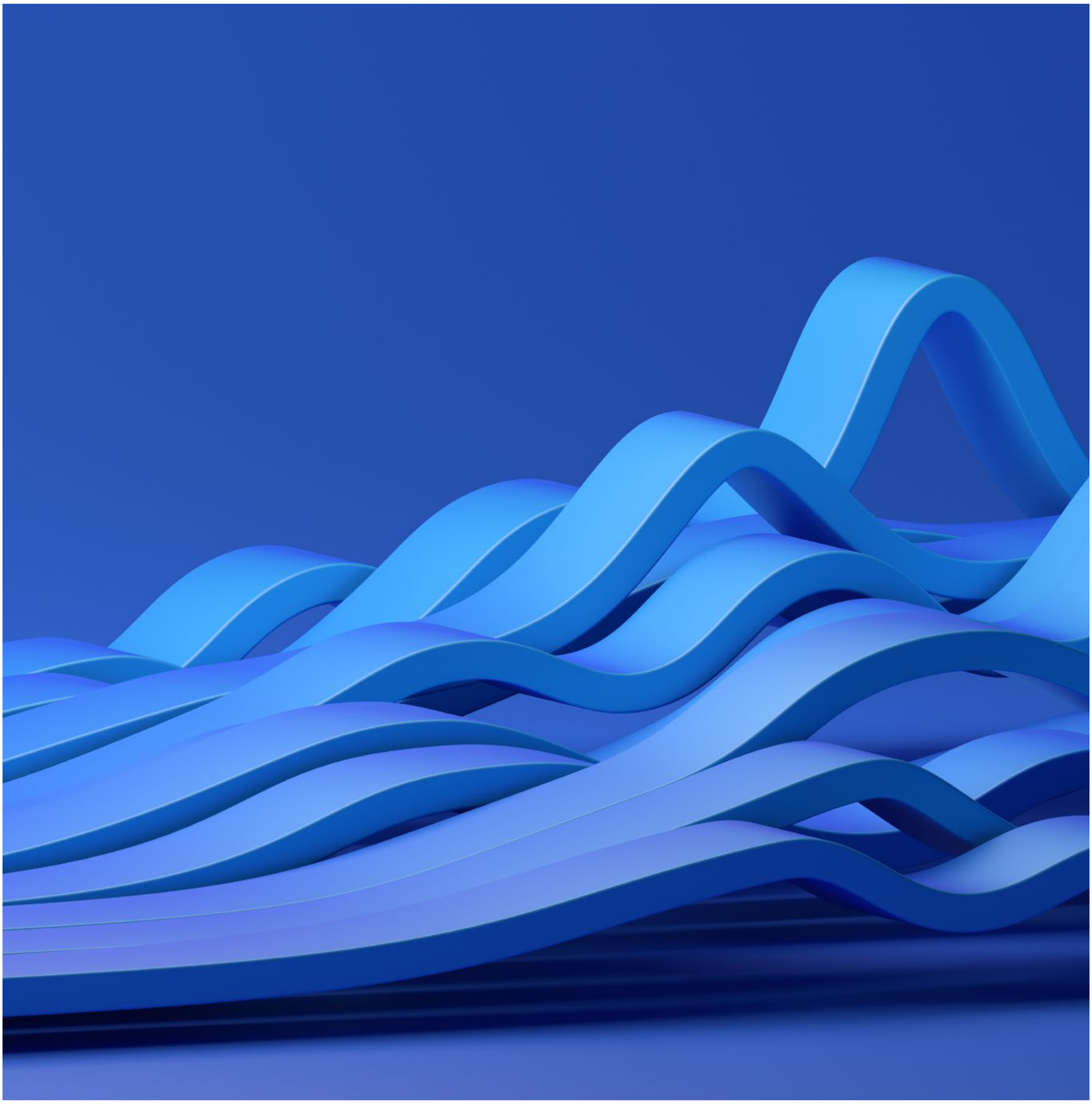

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