Floyd Advisory

Deals, Dollars, and Disputes

MAXIMIZING VALUE
MINIMIZING RISK

A Summary of Private Equity Transactions for the Year Ended December 31, 2014

CONTENTS

Introduction and Our Objective

We are pleased to present you with our *Deals, Dollars, and Disputes* report for the year ended December 31th, 2014. Our annual edition involves a study of the merger and acquisition transactions involving private equity firms ("PE firms") during the recent quarter and over the past five years.

Our objective in preparing this report is to provide a general overview of the volume and value of transactions during the year along with an analysis of trends when compared to prior periods.

As an independent consulting firm with financial and accounting expertise, we are committed to contributing thought leadership and relevant research regarding business and valuation matters to assist our clients in today's fast-paced and demanding market. This report is just one example of how we intend to fulfill this commitment.

We appreciate your comments and feedback and welcome requests for any additional analysis that you might find helpful.

Floyd Advisory
FEBRUARY 2015

Our Process and Methodology

We studied financial data for transactions involving PE firms, both as buyers and sellers, over the past five years for companies headquartered in North America.

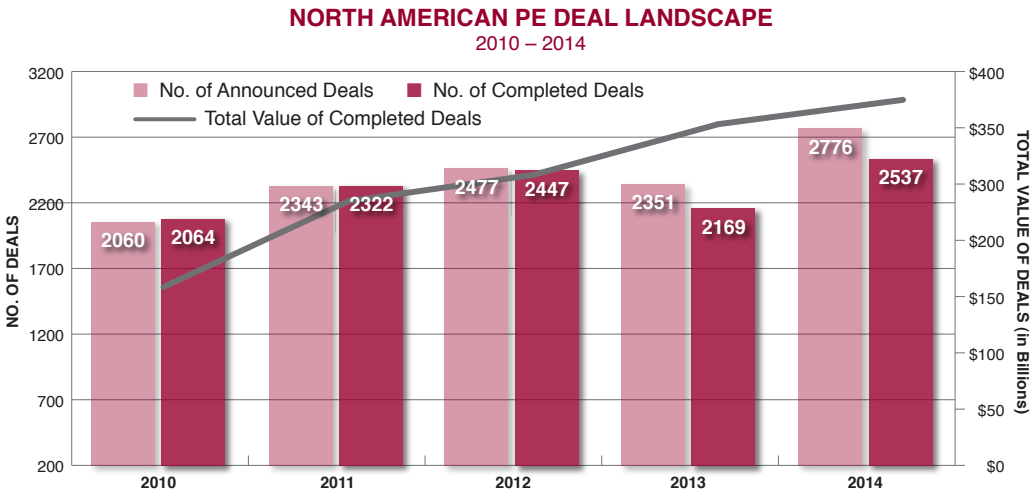
As part of our review, we gathered and analyzed relevant transaction information and data such as industry sector, equity interest, and deal structure, and created a database for our further analyses. From this information, we analyzed market trends by industry, common attributes, valuation premiums, and other characteristics. Applying our professional judgment to these observations, we have prepared this report.

For the purposes of this report, the transaction data we have analyzed is limited to publicly available information.

The total value of deals in the PE market has steadily risen year-over-year since 2010, with a compounded annual growth rate over these five years of 20%.

Summary of PE Firm Transaction Activity 2010 – 2014

A High Value, High Volume Year in 2014

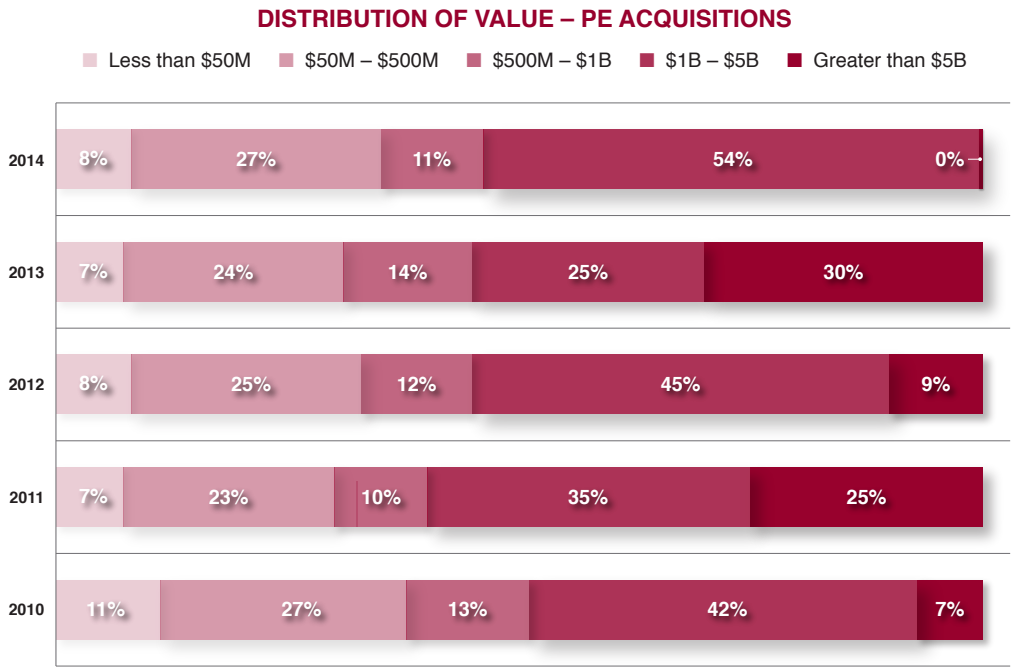


Source: Zephyr (Note: Includes data for which transaction details were reported and publicly available.)

With the exception of the slight decrease in 2013, growth in both PE deals announced and deals completed have been increasing at a steady rate since 2010. The total value of deals in the PE market has steadily risen year-over-year since 2010, with a compounded annual growth rate over these five years of 20%. Even though the number of deals completed in 2013 decreased by 11% compared to 2012, blockbuster deals for Sprint, Dell and HJ Heinz ensured that the year still represented overall growth in value for the PE market.

As confidence returned to the market and the cost of debt decreased, PE investors secured acquisitions across all industries taking advantage of those still recovering from the recession (e.g. restaurants, retail, hotels) and delving into others that have emerged as new and exciting technologies that have gone mainstream (e.g. cloud computing, clean technology, biotech). Moving into 2015, it is becoming clear that this buyer's market has lost some momentum. The competition for deals and search for value has brought about a seller's market for attractive assets. PE firms have seized the opportunity by exiting successful investments through IPOs, selling off to eager peers in secondary divestitures and ultimately achieving a record year for the total value of divestitures in 2014.

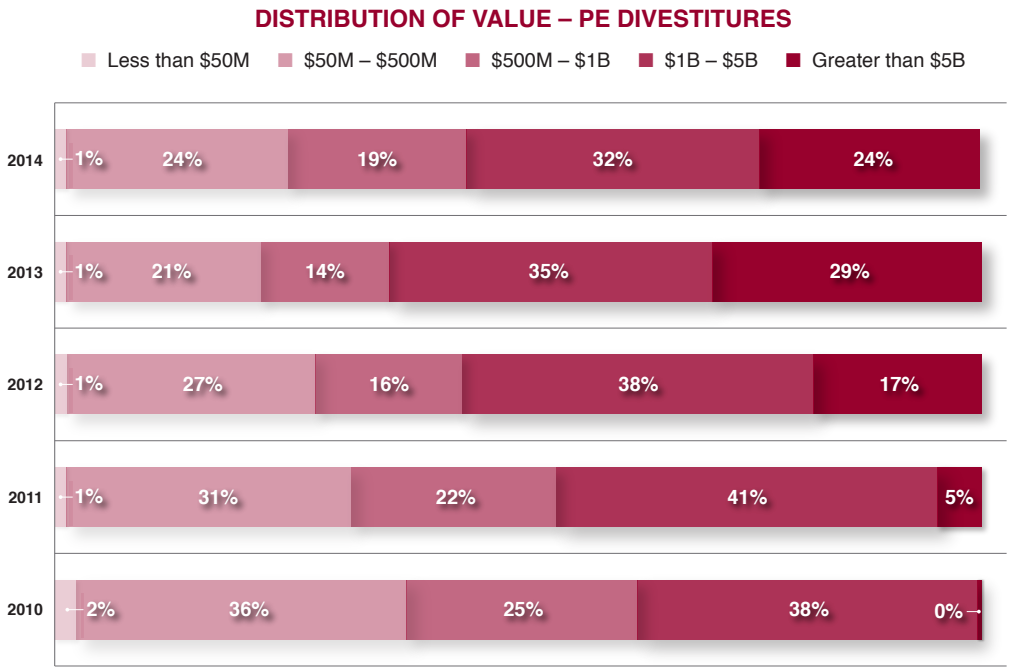
Distribution of Deal Values 2010 – 2014



Source: Zephyr (Note: Includes data for which transaction details were reported and publicly available. The deals described in this graph do not include secondary deals.)

The graph above illustrates the subsets of value in which PE acquisitions can be segmented. Acquisitions into the lower middle market ($50M to $500M range) and upper middle market ($500M to $1B range) have remained relatively consistent throughout this time, ranging from 23 – 27% and 10 – 14%, respectively, each year. Deals above $1B have represented roughly 55% during 2012 and 2013. However, 2013 did have a substantial portion of deal value in the "Greater than $5B" category influenced greatly by the $24.86 billion acquisition of HJ Heinz Company.

If interest rates rise in 2015, middle market acquisitions may become increasingly sought after as PE firms shy away from blockbuster investments amid economic uncertainty.



Source: Zephyr (Notes: Includes data for which transaction details were reported and publicly available. The deals described in this graph do not include secondary deals.)

The preceding graph displays a trend consistent with the growing strength of the United States economy and the seller's market. With confidence being fueled by sustained low interest rates and strengthening equity markets, PE firms have secured lucrative sales for their larger assets. Contributing to this growth was the massive $38.9 billion sale of Sprint Nextel Inc. in 2013, followed by the $19 billion sale of WhatsApp in 2014. Middle market divestitures regained some ground in 2014 as investors sought out value in smaller deals amid the high valuation environment.

"Valuations have reached a point where private equity firms have even been outbidding strategic corporate buyers, who traditionally could afford to counter private equity competition because of the potential for savings from increased efficiency with an acquisition."

Kiernan, K. Law360.com. (2014, July 9th) *Debt-Heavy Private Equity Deal Valuations Hit Record High.*

Making Sense of Valuations in 2014

High valuations were an ongoing theme in the PE markets in 2014. Sellers reaped the profits of well-timed deals, while buyers paid large sums amid the "cheap debt" frenzy. How can the valuation of these deals be explained?

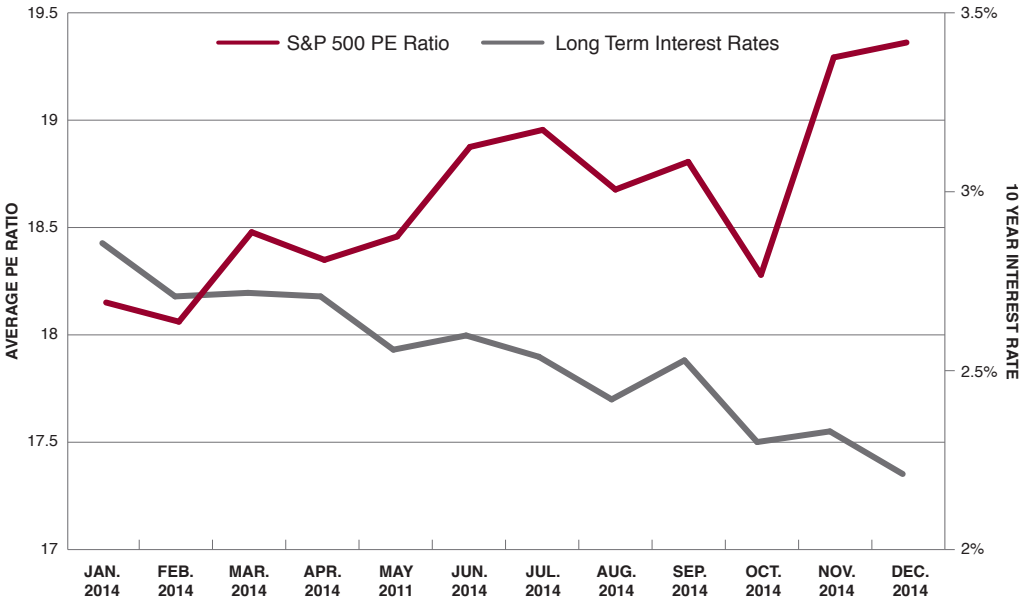
Beginning with the basics, a significant valuation driver is the cost of capital, which is defined as the "the expected rate of return that the market participants require in order to attract funds to a particular investment."[1] The cost of capital is comprised of both the cost of equity and debt, and the magnitude of cost of capital has an inverse impact on value. This helps to explain a fundamental of the high valuation trend in recent merger and acquisition markets—low interest rates (resulting in low bond yields) means a lower cost of debt, resulting in lower overall cost of capital and therefore higher valuations.

[1] *Pratt, S. Cost of Capital, 3rd Edition, Wiley & Sons: New Jersey (2008), pg. 1*

The S&P has experienced recent growth in Price/Earning ratios, which has trended upwards from 18.2 to approximately 19.4 in the latter half of 2014. At the beginning of the year, the third quantitative easing program ("QE3") had already been implemented for over a year and its effects began to steadily push interest rates lower.[2]

With greater confidence in the market together with lower interest rates, a seller's market was created. While it is obvious why this would be an ideal time to sell a company, how do PE firms making acquisitions expect to realize value?

S&P 500 PE RATIO VS. LONG TERM INTEREST RATES
2014



One consideration is the limited availability of attractive PE targets. A number of circumstances must coexist in order for a deal to be completed, including, most importantly, a willing seller. Therefore, while valuations may be high, a PE buyer may identify a deal which is both exceptional and available during a time of cheap debt. The opportunity cost of an exceptional asset often warrants a premium. An additional consideration is the weight given to default risk by prospective lenders and buyers when leverage will be utilized to complete the deal. In the M&A market as a whole in 2014, the average leverage ratio was at its highest since 2007, but the average cash coverage was 2.7x debt service obligations—the highest in 12 years.[3] So, although debt service coverage ratios appear healthy, lenders and PE buyers need to consider whether it will be possible to realize a return on any premium paid because of a depressed cost of capital resulting from the relatively lower cost of debt.

"When confronted with estimated challenges, analysts have one of two choices. The healthy response is to confront the challenge and adapt existing models to reflect the differences in the company being valued. The more common response is to bend the rules of valuation and use shortcuts to justify whatever price they are predisposed to pay for the company. The latter approach is 'the dark side of valuation'."

Damodaran, A.
The Dark Side of Valuation.
FT Press: New Jersey (2010) pg. 18

[2] *http://www.wsj.com/articles/fed-set-to-end-qe3-but-not-the-qe-concept-1414512881*
[3] *http://blogs.wsj.com/privateequity/2014/11/25/structure-of-this-years-biggest-buyout-deals-lowers-default-risk-sp/*

Perhaps it is best to seek answers outside of the fundamentals. Indeed, value is being calculated in the modern market using unconventional metrics and strategies. The technology sector (the most active sector for PE) in particular has seen enormous valuation for companies which did not have sustainable cash flow or, sometimes, any positive cash flows to date. Rather than analyzing cash flows, investors look to the number of established users and the potential of the technology to integrate into everyday lives. PE firms appear to be seeking out assets for holding periods greater than the average 5 – 7 years; investing in assets which will provide value over time in addition to large gains upon divestiture. This would lessen the impact of short-term volatility, while providing a larger window in which to seek out the greatest return. A potential weakness of this strategy would be depressed internal rates of return (which are lower with longer holding periods)—a key indicator for potential investors.[4]

Another strategy of PE firms is to acquire minority interests when buyouts are valued at too high of a premium. Acquiring preferred stock in such deals provides income from dividends and the eventual return on divestiture while also ensuring seniority over common stock in case the asset becomes distressed.[5] Alternative strategies and the use of unconventional metrics such as these may become more common as the number of divestitures give rise to reinvestment in PE funds.

What is clear from the PE market in 2014 is that confidence was available in abundance. Whether it continues into 2015 is a different question.

One might reason that the current steep prices represent a value bubble created by overambitious buyers. Market bubbles are often defined as a disconnect between market prices and the fundamentals of valuation;[6] including cash flows, growth, and risk levels. The problem with bubbles is that they only become clear in hindsight. The question is—at what point on the spectrum of investing motivations does the opportunity for cheap debt surpass the risks of overinvesting? And will growth rates surpass current expectations such that valuations are sustained despite increasing rates? What a buyer believes about the economy, subject industry, and financial markets is central to value. What is clear from the PE market in 2014 is that confidence was available in abundance. Whether it continues into 2015 is a different question.

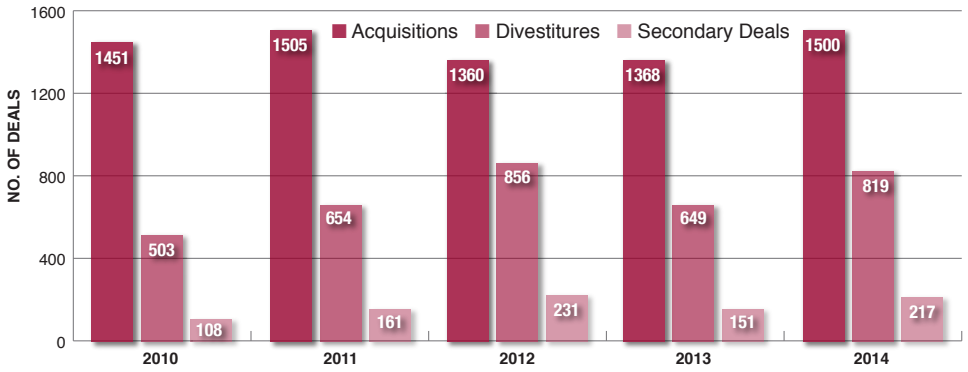
Acquisitions, Divestitures and Secondary Deals 2010 – 2014

Favorable Conditions Create an Impressive Year for Divestitures

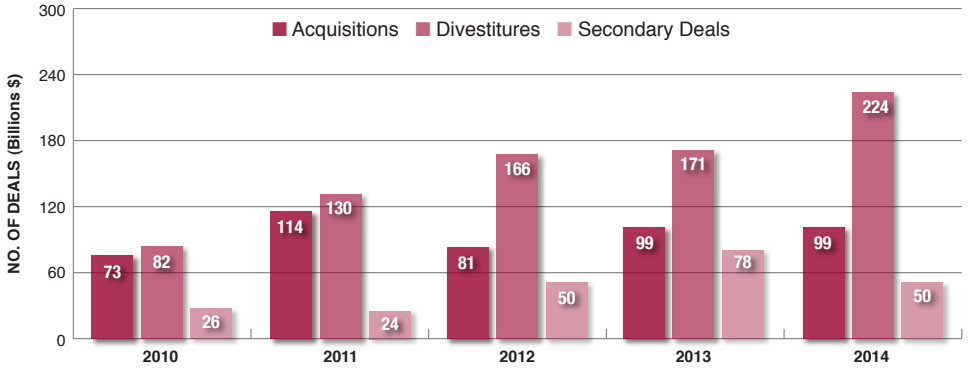
The graphs on the following page display certain trends in the PE market over the past five years. From 2010 forward, while the total number of deals increased, the number of divestitures compared to acquisitions also rose. With both a steadying economy and willing buyers, one can see how PE began to sell off their pre-recession investments—many of which had been very large deals prior to the recession and only recently had reached valuations such that an appropriate profit could be made. In 2010, there were 2.9 acquisitions for every divesture, while that figure was only 1.8 in 2014. The total value of deals also highlights the growing trend in divestitures. In 2010, the value of divestitures was 1.1x the value of acquisitions, and rose to 2.3x by 2014.

[4] *http://blogs.wsj.com/privateequity/2015/01/15/investors-slam-buyout-industry-returns-disclosure/*
[5] *http://www.pionline.com/article/20141222/PRINT/141229999/private-equity-investors-could-see-more-cash-back-better-returns*
[6] *http://aswathdamodaran.blogspot.com/2014/06/bubble-bubble-toil-and-trouble-costs.html*

ACQUISITIONS VS. DIVESTITURES BY COUNT OF DEALS
2010 – 2014



ACQUISITIONS VS. DIVESTITURES BY VALUE OF DEALS
2010 – 2014



Source: Zephyr (Note: Includes data for which transaction details were reported and publicly available.)

Secondary divestitures have been the least prevalent in the Mining industry, representing only 6% of divestitures. The industry with the most active secondary market has been wholesale trade, at 38% of divestitures.

THE SECONDARY MARKET

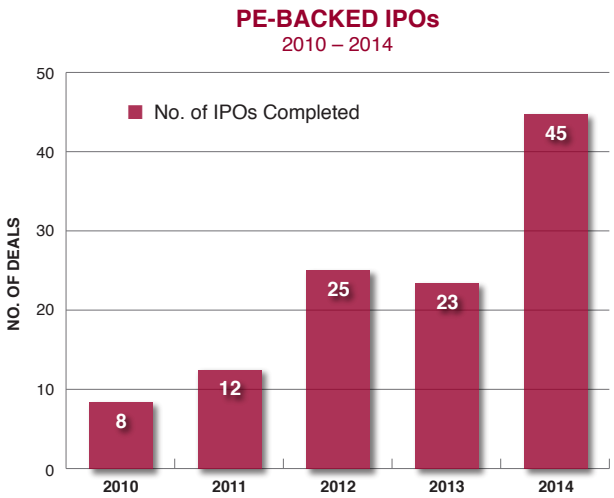
Although the PE market has traditionally been associated with illiquid investments with long holding periods for individual assets, the emergence of a large secondary market has provided greater flexibility for PE fund investors to sell before investments have reached maturity. The secondary market, long considered the "pawn shop" of the PE industry,[7] grew rapidly in 2014. Investors have taken advantage of the crowded market and willing buyers with surplus funds to achieve high rates of return in advance of typical holding periods.[8]

With expectations of a thriving market for deals in 2015, the uncertainty lies in whether the supply of secondary sales can keep up with demand. Cogent Partners estimates that there is currently $84 billion available to spend in the secondary deals market, or approximately double the 2014 amount.[9]

[7] *http://www.mccarter.com/Howard-Berkower-quoted-in-7-Trends-That-Will-Drive-Private-Equity-in-2015-which-appeared-in-Law360-01-02-2015/*
[8] *http://www.forbes.com/sites/antoinedrean/2015/01/12/ten-predictions-for-private-equity-in-2015/*
[9] *http://blogs.wsj.com/briefly/2015/01/30/5-predictions-for-the-private-equity-secondaries-market-in-2015/*

Private Equity-Backed IPOs 2010 – 2014

Most PE-Backed IPOs In Last Five Years



Source: Zephyr (Note: Includes data for which transaction details were reported and publicly available.)

The graph demonstrates the flourishing market for PE-backed IPOs. The most active sector during this period has been "computer processing and data technology," which could be attributed to the immense growth in mobile technologies, cloud computing and online professional services. In 2014, low interest rates, favorable valuations, an excess of supply, and robust investor appetite combined to make the IPO market the strongest since 2000.[10]

The Securities and Exchange Commission ("SEC") has implemented an "on-ramp" via the 2012 JOBS Act. This provision makes it easier than ever for companies to file for IPOs, affording them a measure of privacy that protects their filings from public scrutiny while allowing emerging companies to pre-market their IPO to potential investors as a means of "testing the waters."[11] PE-backed IPOs also tend to do well on their first day due to the markets perception of efficient entities which emerge from PE ownership being designed for growth and value.[12] As a result of this legislation, companies have greater incentive to hold IPOs, and 2015's robust IPO pipeline is a testament to the increasing popularity of this exit method. On the other hand, IPOs do have some disadvantages. Selling shares means diluting ownership, which can be beneficial if a business owner intends to divest from the company, but can also lead to shareholder tension and conflicts of interest.

Despite these pros and cons, the IPOs are ultimately at the mercy of the market. As we saw in 2014, favorable conditions led to record-breaking numbers and a bevy of high-profile deals. If these conditions persist through 2015, the IPO pipeline may continue its upward trend.

"What does the year ahead hold for the new issues market? Likely more of the same, but with one key exception: Don't look for energy-related IPOs any time soon. That sector has become a maelstrom of lost capital, and bankers won't even pretend that they can drum up interest. (Then again, M&A in energy may be quite strong, as cash-rich firms identify highly-discounted assets that they can add to their production base.)"

StreetAuthority. (2015, January 30th) *A Look at the Most Anticipated IPOs of 2015.* Nasdaq.com http://www.nasdaq.com/article/a-look-at-the-most-anticipated-ipos-of-2015-cm438722

[10] *http://www.pwc.com/us/en/press-releases/2014/q4-2014-ipo-watch-press-release.jhtml*
[11] *http://www.forbes.com/sites/realspin/2013/03/28/on-its-one-year-anniversary-two-cheers-for-the-jobs-act/*
[12] *http://www.forbes.com/sites/ey/2014/11/06/its-still-full-speed-ahead-for-pe-backed-ipos/*

Industry Sector Transaction Analysis 2010-2014

INDUSTRY ANALYSIS 2010 – 2015					
Industry	**Largest Deal**	**Average Divestiture Value vs. Acquisition Value**	**Acquisition to Divestiture Ratio by Count**	**IPO Activity (Ave. No. Per Year)**	**Most Active Sector**
Services	**WhatsApp Inc. - $19B 10/6/2014** Sold by Sequoia Capital to Facebook Inc.	5.4	1.8	9.4	**Computer processing and data preparation and processing services** Given the lightning fast rise of cloud technology and the saturated digital technology market, it's no surprise that this sector of the Services industry saw more acquisitions over the past five years than all other sectors combined. 2014's blockbuster WhatsApp deal was partially funded by Facebook's own stock, a useful and valuable tool corporations have over private equity firms that often allows corporations to pay a higher price if they focus on synergies rather than returns. (http://dealbook.nytimes.com/2014/12/10/lessons-for-private-equity-learned-from-the-last-merger-frenzy/)
Manufacturing	**Dell Inc. - $33.9B 10/29/2013** Sold by Multiple PE Firms to Denali Intermediate Inc.	3.7	2.4	5.2	**Surgical and medical instruments and apparatus** An aging population, rising rates of diabetes and obesity, an expanding home healthcare market, and the long-term implications of the Affordable Care Act all account for why the surgical and medical instruments sector of the Manufacturing industry saw such a rise in 2014. (http://allcapcorp.com/blog/medical-instrument-supply-manufacturers-seek-private-equity-2014/)
Mining	**Samson Investment Company - $7.2B 12/11/2011** Acquired by consortium led by KKR Co. LP	2.4	1.8	2.6	**Oil and gas field exploration services** The Mining industry as a whole is capital-rich and immensely diverse, allowing private equity firms to invest in all types of oil- and gas-related services. There was a notable increase in PE divestitures in 2011 and 2012 as oil prices rebounded from the lows of 2008 and 2009. The recent drop in oil prices has caused a substantial decline in the value of private equity's mining assets.
Finance, Insurance, & Real Estate	**Centro Properties Group US Assets - $9B 6/28/2011** Acquired by BRE Retail Holdings Inc. (The Blackstone Group serving as advisors)	2.1	2.4	2.4	**Investment advice** Market research company IbisWorld expects that the financial advisory sector of the Finance, Insurance, and Real Estate industries will continue to increase through 2019 as the economy improves. More disposable income for consumers will lead to an increased willingness to invest, and an aging population will heighten demand for financial planning services. (http://www.ibisworld.com/industry/default.aspx?indid=1316)
Wholesale Trade	**HJ Heinz - $28.5B 6/7/2013** Acquired by Hawk Acquisition Holding Corporation	0.6	2.6	0.4	**Industrial machinery and equipment (wholesale dealing in)** Wholesale Distribution is ranked highly as a seller industry, but has lately opted for specialized or niche deals. In addition, factors such as higher inventory levels and lower pricing and margins may also compel wholesale companies to consider more aggressive and transformational deals in 2015. (http://www2.deloitte.com/content/dam/Deloitte/us/Documents/consumer-business/us-retail-ma-wd-pov-012914.pdf)
Transportation, Communications, & Utilities	**Sprint Nextel Corporation - $38.9B 7/10/2013** Sold by shareholders (including Greenlight Capital) to Starburst II Inc.	4.5	1.9	0.8	**Electric services** With mass retirements of coal-fired power plants expected to occur across the country in the near future, investors are seeking out opportunities in natural gas and reneweable energy in order to be well-positioned during the period of transition. Energy-focused PE funds in North America have been investing heavily in new and efficient gas plants, raising $26 billion in 2013. (http://blogs.wsj.com/privateequity/2013/08/16/private-equity-preps-for-power-plays-in-u-s-electricity/, http://www.bloomberg.com/news/articles/2014-12-12/cheap-natural-gas-lures-private-equity-to-power-industry)
Retail Trade	**Neiman Marcus Group - $6B 10/25/2013** Acquired by Canada PPI Board and Ares Management LLC from PE Group led by TPG Capital and Warburg Pincus LLC	1.0	2.9	1.4	**Eating places** Restaurants have become major targets for PE in recent years, especially "casual dining" chains which have captured a greater share of American restuarant-goers. While many larger and established chains have been acquired in recent years, there is an even greater drive for growth opportunities in companies with fewer than 50 locations. The sector will continue to strengthen as consumers begin to access more disposable income from the strengthening economy and low gas prices and as investors seek the next trend in eating out.
Agriculture, Forestry, & Fishing	**MFI Holdings Corp. - $2.4B 6/2/14** Sold by Goldman Sachs Capital Partners and Thomas H Lee LP to Post Holdings Inc.	31.1	1.9	N/A	**Veterinary services for animal specialties** The veterinary services sector is uniquely compact: only two large companies and a handful of midsize players in an industry of 38,000+ businesses. Yet the largest company, VCA, accounts for only 5.5% of revenue, meaning that there is plenty of room for consolidation in an industry that's been steadily declining. On the flip side, pet ownership is increasing, and 2015 may see a notable transaction within the veterinary services industry. (http://blogs.wsj.com/privateequity/2014/08/21/who-could-be-next-in-vet-deals/)
Construction	**Infrastrux Group Inc. - $604M 7/1/2010** Sold by Tenaska Capital Management LLC to Willbros Group Inc.	3.2	6.2	0.4	**Water, sewer, pipeline and communications and power line construction** Long-term stability and predictability are two reasons why the water industry remains attractive for PE investors. Water remains an indispensable public utility, one which is likely to receive further attention from investors in the future as infrastructure needs drive partnerships between PE and local municipalities in need of capital. (http://www.greenbiz.com/blog/2013/12/30/private-equity-solution-faulty-water-systems)
Public Administration	**R3 Treatment Inc. - $1.3B 10/25/12** Acquired by PE group including Tinicum Inc., Blue Sage Capital and Paine & Partners LLC	2.2	3.6	N/A	**Air and water resource and solid waste management** The solid waste management sector represents relatively low risk investments for PE firms. PE firms seek out companies with strong management, superior safety records and large customer bases to partner up in acquiring and consolidating other companies. Developments in natural gas and waste-to-energy technologies may bring greater momentum to investments in the near future. (http://waste360.com/private-equity/monied-mates?page=3)

Note: Includes data for which transaction details were reported and publically available.
The most active sector is based on the total number of deals announced or completed within the relevant time period.

PE Market Considerations for 2015

With renewed confidence, 2014 was a strong year for PE markets. The general consensus appears to be positive for PE in 2015, though results are expected to be more conservative than 2014. Below are a few factors that may impact the market in the coming year.

Increased Competition for Deals

The level of competition among private equity firms is expected to increase in 2015. Despite what fundamentals may indicate about current valuations, investor expectations within the industry are still high, which may result in an increasingly challenging environment to secure promising investments. 2015 is likely to be another big year for divestitures and PE firms may push for sales of their longer held assets (or assets which are deemed to have reached a satisfactory level of economic value) amid this promising economic climate, as such periods can be utilized to restructure their assets in accordance with updated strategies and outlooks. This means that carve-outs and spinoffs may be a feature of the divestment activity as PE firms seek creative methods of packaging and marketing incompatible investments.[13]

Competition will also be fueled by the funds available to the PE world. With the success of private equity in 2014, investors are likely to plunge fresh funds into the industry. These funds, compounded by those freed up by the number of divestitures in 2014, will ensure that substantial amounts of capital (estimated to be between $800B and $1 trillion) are made available for new investments. The increased demand for deals may exceed supply which may result in fewer deals being completed.

PE market participants will also feel competition from their own clients. The sustained low level of interest rates has allowed institutional investors, such as pension plans and sovereign wealth funds, to bypass hedge funds and private equity firms (and their associated fees) and invest directly in assets through buyouts or partnerships with like-minded investors.[14] Should this trend continue, PE funds may opt to partner with such investors rather than their peers on larger deals.[15]

"Pro-leverage forces point to the successes and say that having a large amount of debt on the balance sheet provides survival incentive for managers to perform efficiently.... The antileverage philosophers disagree. Heavy debt servicing competes against operating excellence as dollars once marked for needed research and development or plant and equipment go to interest payments, often with dire consequences for the acquired company and eventually its community."

Reed, Lajoux & Nesvold, *The Art of M&A, 4th Edition,* McGraw-Hill: New York, pg. 151

Spotlight on Fees and Industry Practices

Following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010, the SEC has required firms managing more than $150 million in assets to file as investment advisors. This move brought many of the largest private equity firms under the purview of the SEC and forced the SEC to increase the number of employees dedicated to overseeing inspections of these firms, a division known as the Office of Compliance Inspections and Examinations ("OCIE").

[13] *http://web20.nixonpeabody.com/peblog/Lists/Posts/Post.aspx?ID=118&Title=Ernst+&+Young%E2%80%99s+Predictions+for+Private+Equity:+U.S.+Deal+Momentum+to+Continue+to+Rise+in+2015+*
[14] *http://www.ft.com/cms/s/0/8d29f282-47b5-11e4-be7b-00144feab7de.html#axzz3Q2ZC1OAZ*
[15] *http://www.wsj.com/articles/private-equity-firms-wrestle-with-investors-as-competitors-1416580034*

In 2014, the SEC stated that a two year investigation into the PE industry had found "violations of law or material weaknesses" in more than half the firms it examined. The SEC believes that some PE firms have been deceiving investors by "[c]harging undisclosed 'administrative' or other fees not contemplated by the limited partnership agreement."[16]

While most PE firms may contend that the fees are both lawful and properly disclosed in up-front agreements, the SEC's focus and criticism has spurred many firms to reevaluate their fee policies and assess whether their fee disclosures are sufficient. Some firms have recognized the findings at the SEC and refunded clients who were found to be overcharged.[17]

The SEC's focus is expected to intensify following the findings of this initial investigation. Indeed, the SEC has stated that it may take years to build a case against infringing firms.[18]

Anticipated Opportunities for Distressed Targets

While there is a possibility of interest rate hikes in mid-2015, there is still much uncertainty as to the Fed's future actions.[19] If interest rates do rise, highly-leveraged companies will become strained and the possibility of refinancing for distressed companies will become a less viable option, possibly leading to further bankruptcies. The energy sector in particular may be greatly impacted, with the drop in oil prices already diminishing value and profits.[20] Depending on the extent and timing of increased interest rates, the Fed's decisions may have only negligible consequences for 2015. However, we may see a resurgence in opportunities for distressed buyers, a group of investors who have had relatively fewer prospects in the last year.

Increased Scrutiny on Financial Advisor Conflicts of Interest

In 2015, we may see greater scrutiny from the regulators on conflicts of interest in deal-making. The Delaware Chancery Court recently ruled against Royal Bank of Canada, fining them $76 Million for the damage caused in the sale of Rural/Metro Corporation to Warburg Pincus.[21] Royal Bank of Canada's conflict arose because they were doing both the valuation/due diligence and the banking for Rural/Metro Corporation. PE firms will want to ensure they are aware of such relationships, and whether any related conflict of interest is real or simply perceived. It will be interesting to see if regulators push for independence standards similar to those that govern the public accounting industry.

"Historically, private equity funds have been stellar performers. But in recent years, their performance has dimmed; over the last five years, on average, they have lagged the returns of the broad stock averages. Amid this decline, some investors have raised concerns about hidden fees levied by private equity funds. They include fees paid by the companies held in the private equity firm's portfolio."

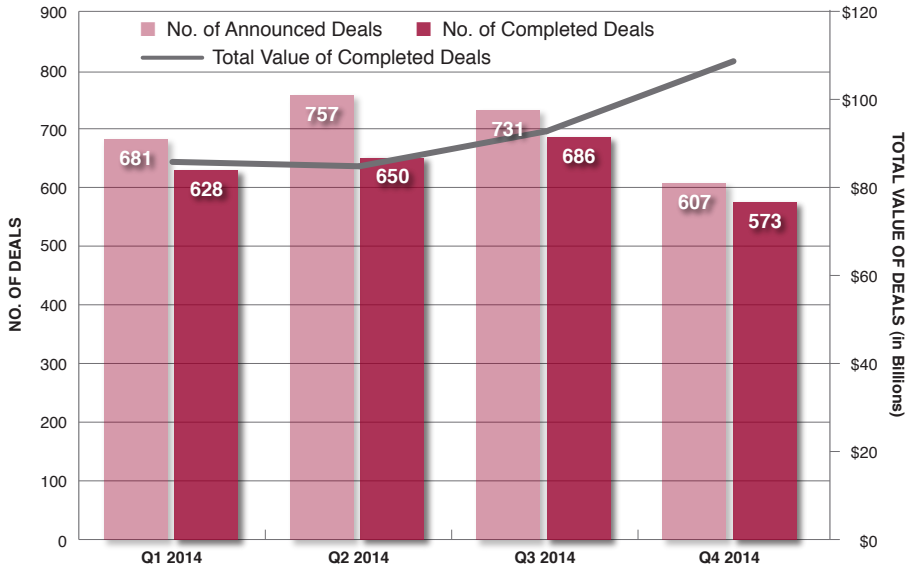
Morgenson, G. (2014, December 27th) *Entering the Secret Garden of Private Equity.* New York Times. http://www.nytimes.com/2014/12/28/business/entering-the-secret-garden-of-private-equity.html

[16] *http://www.sec.gov/News/Speech/Detail/Speech/1370541735361#.VMpeRmjF-VM*
[17] *http://dealbook.nytimes.com/2015/01/22/after-inspecting-private-equity-funds-s-e-c-examiners-to-broaden-focus/?_r=0*
[18] *http://www.reuters.com/article/2015/01/22/privateequity-sec-idUSL1N0V127320150122*
[19] *http://www.marketwatch.com/story/doubts-grow-about-mid-year-rate-hike-but-fed-wont-express-any-2015-01-26*
[20] *http://www.law360.com/articles/599653/7-trends-that-will-drive-private-equity-in-2015*
[21] *http://www.reuters.com/article/2014/10/10/us-rbc-judgment-idUSKCN0HZ2DC20141010*

Summary of Q4 2014 PE Firm Transaction Activity

Volume of Quarterly PE Deals Announced and Completed

The value of deals completed in Q4 increased 18% compared to Q3, despite a decrease in the number of deals completed.



Note: Includes data for which transaction details were reported and available.

Compared to Q3 2014, Q4 2014 saw an 18% increase in total value of deals, despite the decrease in quantity of deals announced and completed. Much of this value increase can be attributed to completion of the $19 billion sale of WhatsApp Inc.

Over the last four quarters there has been an average of 9% more deals announced than completed. Numerous factors explain the variance between deals being announced and completed, including regulatory approval, break-ups, terminations, and other causes. The variance can also be partially explained by the difficulties surrounding the confirmation of completions involving privately-held companies.

The top 20 deals during the quarter exhibited the seller's market, with 50% of total value being represented by the top three deals, all of which were divestitures.

Top 20 Completed PE Deals During Q4 2014

	Deal Value USD (in Thousands)	PE Role(s)	Target	Seller	Deal Type	Acquiring Entity (Advisors)	Target Primary US SIC Description
1	$19,000,000	Seller	WhatsApp Inc.	Sequoia Capital Shareholders	MAJ	Facebook Inc.	Computer programming services
2	$6,250,000	Seller	Nuveen Investments Inc.	Deutche Bank AG, Morgan Stanley, Citigroup Inc., DLJ Merchant Banking Partners, Merrilll Lynch Global Private Equity Inc., Madison Dearborn Partners LLC, Pamlico Capital LP	MAJ	TIAA-CREF Investment Management LLC	Investment advice
3	$5,909,442	Seller	Sabine Oil & Gas LLC	First Reserve Corporation LLC Shareholders	MAJ	Forest Oil Corporation	Oil and gas field exploration services
4	$4,300,000	Buyer	Tibco Software Inc.	Praesidium Investments Management Company LLC, Chesapeake Partners Management Company Inc., Thompson Reuters Group LTD, Shareholders	MAJ	Balboa Intermediate Holdings LLC (Vista Equity Partners LLC)	Computer programming services
5	$2,800,000	Seller	Taminco Corporation	Apollo Global Management LLC, Shareholders	MAJ	Eastman Chemical Company	Industrial organic chemicals, not elsewhere specified manufacturing
6	$2,700,000	Seller	Trizetto Corporation	Apax Partners LLP	MAJ	Cognizant Technology Solutions Corporation	Computer processing and data preparation and processing services
7	$2,400,000	Buyer	Compuware Corporation	Sandell Asset Management Corporation, Elliott Management Corporation, Starboard Value LP, Shareholders	MAJ	Thoma Bravo LLC	Computer programming services
8	$1,940,000	Buyer	Wheelabrator Technologies Inc.	Waste Management Inc.	MAJ	Energy Capital Partners LLC	Electric services
9	$1,750,000	Seller	Alios Biopharma Inc.	Novartis Venture Fund, Novo A/S, Roche Venture Funds, The SR One LTD, Shareholders	MAJ	Johnson & Johnson	Commercial physical and biological research
10	$1,525,000	Buyer	Kremers Urban Pharmaceuticals Inc.	UCB SA	MAJ	Advent International Corporation, Avista Capital Holdings LP	Pharmaceutical preparations manufacturing
11	$1,500,000	Buyer	Herff Jones Inc.	Employee Stock Ownership Plan	MAJ	Management, Charlesbank Capital Partners LLC, Partners Group AG	Jewelry, precious metal
12	$1,500,000	Buyer, Seller	Transfirst Inc.	Welsh Carson, Anderson & Stowe	MAJ	Vista Equity Partners LLC	Functions related to depository banking, not elsewhere classified
13	$1,500,000	Seller	Nuevo Midstream LLC	Shareholders, EnCap Flatrock Midstream	MAJ	Western Gas Partners LP	Crude petroleum and natural gas
14	$1,430,000	Buyer, Seller	Berlin Packaging LLC	Investcorp Bank BSC, Shareholders, Mr. Andrew T. Berlin	MAJ	Management, Oak Hill Capital Management Inc.	Plastics bottles manufacturing
15	$1,425,000	Seller	Ruby Pipeline Holding Company LLC	Global Infrastructure Management LLC	MAJ (50%)	Veresen Inc.	Pipelines, not elsewhere specified
16	$1,337,797	Seller	Waupaca Foundry Holdings Inc.	KPS Capital Partners LP	MAJ	Hitachi Metal LTD	Gray and ductile iron foundries
17	$1,325,000	Buyer, Seller	York Risk Services Group Inc.	Abry Partners LLC, Shareholders	MAJ	Onex Corporations, Management, Undisclosed Investors	Insurance agents, brokers, and service
18	$1,250,000	Seller	DSS Group Inc.	Crestview Advisors LP, Shareholders	MAJ	Cott Corporation	Bottled and canned soft drinks and carbonated waters
19	$1,200,000	Buyer	Grocery Outlet Inc.	Berkshire Partners LLC, Shareholders	MAJ	Management, Hellman & Friedman LLC	Grocery stores
20	$1,200,000	Buyer	Swepi LP and Shell Gulf of Mexico Inc's Haynesville Assets	Swepi LP, Shell Gulf of Mexico Inc.	MAJ	Vine Oil & Gas LP (Blackstone Capital Partners LP)	Oil and gas field exploration services

Source: Zephyr
Deal types: MAJ = Majority Stake Acquisition, MIN = Minority Stake Acquisition, IPO = Initial Public Offering

"Sequoia, a venture capital firm founded in 1972, is poised to make as much as 50 times its money on the deal.... Sequoia was also the only venture capital firm backing YouTube, emerging as a big winner when Google bought the company for $1.65 billion in 2006. In the wake of the dot-com crash, Sequoia achieved a windfall when eBay bought one of its portfolio companies, PayPal, for $1.5 billion in 2002."

(http://dealbook.nytimes.com/2014/02/20/in-whatsapp-deal-sequoia-capital-may-make-50-times-its-money/)

"Apollo is exiting Taminco after an initial public offering of shares in April 2013 that debuted at $15 each. Apollo owns 35.7 million of Taminco's 66.5 million shares outstanding, according to data compiled by Bloomberg. Taminco is the world's largest producer of alkylamines and alkylamine derivatives, made by blending ammonia with an alcohol, such as methanol. Competitors include DuPont Co., BASF SE and Celanese Corp."

(http://www.bloomberg.com/news/articles/2014-09-11/eastman-chemical-agrees-to-buy-taminco-for-1-8-billion)

"The deal is likely to be a bonanza for the 4,500 employees who own company shares. U.S. Department of Labor filings show Herff had an appraised value of $805 million in 2012, the latest year available. Since employees acquired Herff nearly two decades ago, shares have been released to them gradually, as the company paid down a loan used to fund the buyout. The press release says the sale price represents a "significant premium" to the latest valuation, but does not provide specifics."

(http://www.ibj.com/articles/50321-private-equity-group-confirms-herff-jones-buyout)

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