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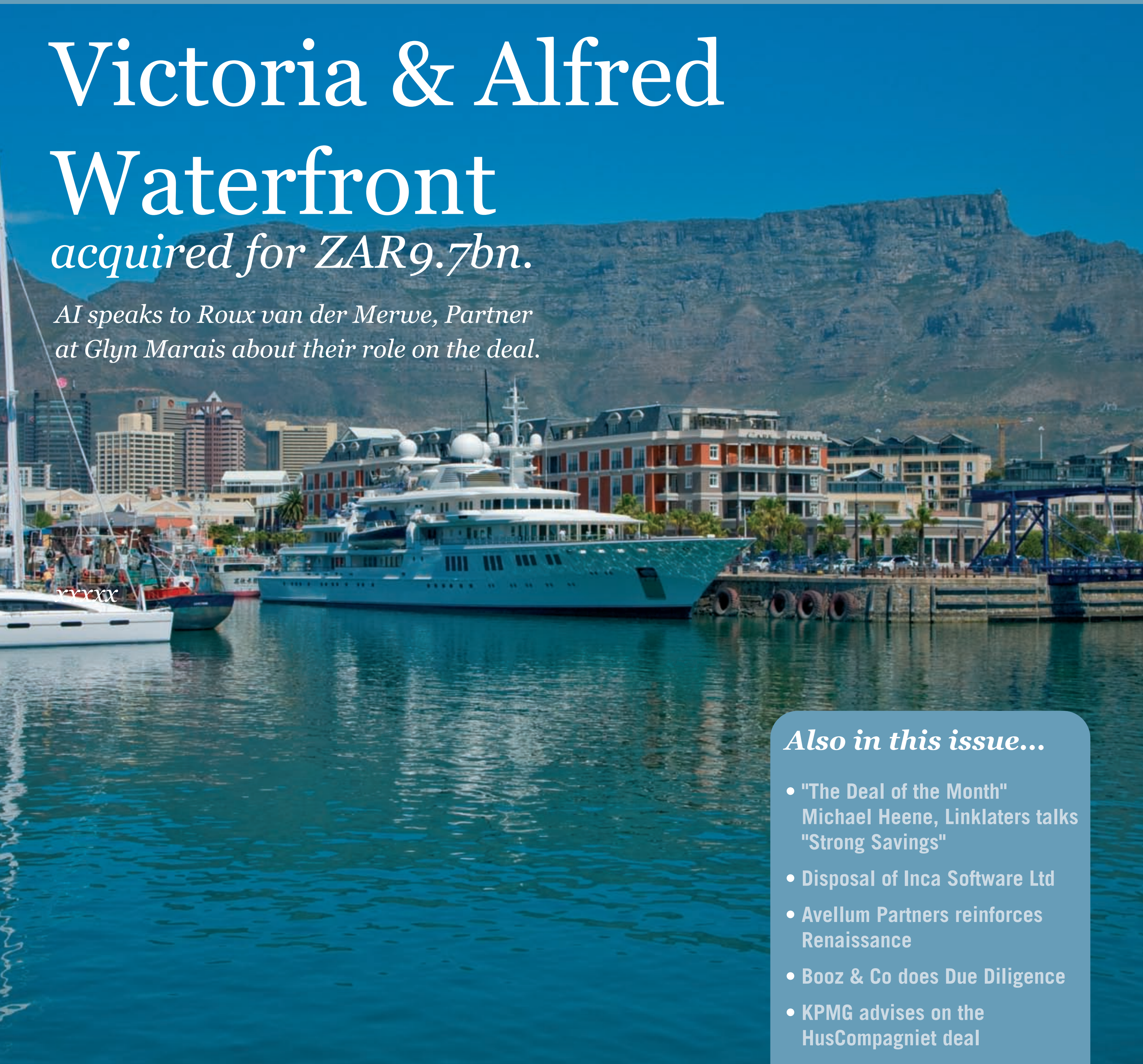
ACQUISITION INTERNATIONAL

The Voice of Corporate Finance

Victoria & Alfred Waterfront

acquired for ZAR9.7bn.

AI speaks to Roux van der Merwe, Partner at Glyn Marais about their role on the deal.



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- "The Deal of the Month" Michael Heene, Linklaters talks "Strong Savings"
- Disposal of Inca Software Ltd
- Avellum Partners reinforces Renaissance
- Booz & Co does Due Diligence
- KPMG advises on the HusCompagniet deal

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The *Secondary* Boom

Roux Capital is an independent adviser exclusively focused on Primary and Secondary Private Equity assignments. In Primary assignments, the firm acts as a placement agent raising Private Equity funds from active institutional and individual investors. In Secondary assignments, Roux Capital advise investors seeking liquidity for their limited partnership interests, and fund managers seeking to restructure their existing investor base. Acquisition International speaks to Francois Roux, Founder and Managing Partner of Roux Capital about the Secondary boom.

Roux Capital cover all types of funds on a worldwide basis in buyouts, venture capital, expansion capital, real estate, infrastructure, energy, special situations, mezzanine, and specialized funds.

The firm's assignments bear on funds of any size, maturity, structure and geography, but their typical secondary transactions range from €10mn to €300mn in size. They also increasingly bear on company portfolios, referred to as direct secondary.

Francois Roux explains: "Our transactions are executed exclusively at the senior partner level. We shy away from junior execution, standardized solutions and large-scale mechanisms. We are always available and believe in hard work. When sellers simply require price maximization, we can organize large, open and competitive auctions like anyone else. But we differentiate ourselves by specializing in limited auctions or narrowly focused private negotiations. For sellers sensitive to discretion and efficiency, we narrowly target a limited number of likely buyers, and we keep sellers' identity secret until closing. We also stand out from our competitors by executing fund restructuring transactions on behalf of General Partners through a combination of primary and secondary money. "

He continues: "Our fund restructuring solutions take the form of fund transfer, extension or recapitalization, top-up fund, annex fund, bridge fund, or GP spin-off. They allow the replacement of existing Limited Partners and the injection of additional capital, while keeping the existing GP in place. They induce financial and governance rebalancing and substantial renegotiation of partnership agreement and management contract. In an increasingly Darwinian market, in which primary LPs reduce the number of GP relationships and shun a large number of good quality funds, Roux Capital supports the idea that abundant secondary money can become available to GPs in the form of primary commitments through restructuring solutions such as fund extensions and transfers, and top-up and annex funds.

"We are supportive of such solutions and see them gaining momentum. We generally identify restructuring transactions through GPs who are smart enough to address liquidity concerns before they become critical and public. Those who cannot do so promptly are meant to simply disappear. Large respected secondary LPs we work with on such restructurings consider that up to 40% of the current GP population could become tomorrow's Private Equity dinosaurs. This has already started. Out of 4,000 GPs worldwide, 180 have disappeared in 2010, double the figure for 2009.

"Regarding the secondary market, we witnessed a healthy alignment of buyer and seller expectations early in 2010, which reignited the secondary market. Its volume surpassed $20bn in 2010, making it the busiest year on record. The trend is expected to continue all along 2011 and 2012.

"There are two encouraging and structural factors fuelling the buoyant secondary market: Net Asset Values have constantly progressed for 18 months, and we now enjoy single-digit discounts to Net Asset Value, far away from the 30% to 50% discounts prevailing until recently. The distressed sellers are long gone. We are back to market conditions prevailing before the Lehman bankruptcy, with strategic sellers who can tap prices they would not even have dreamt of a year ago.

"Secondary buyers have raised significant amounts of money. They have taken advantage of the crisis years to get an intimate knowledge of funds' portfolios; they have gained confidence in portfolios' resilience. Buyers' visibility has returned to standard levels, along with medium term economic prospects. The public equity market rally has boosted investor confidence and secondary prices, and has generated considerable secondary capital overhang. As a consequence, secondary buyers now require lower returns in the form of 1.3-1.4x target multiple to NAV on large portfolios, 1.5-1.6x on less diversified portfolios, and 1.7-1.8x on direct secondaries.

"Among the largest and most publicized transactions were the acquisitions of a Bank of America's portfolio by AXA Private Equity, a Citigroup's portfolio by Lexington Partners, and a Public Sector Pension Investment Board's portfolio by CPP Investment Board in 2010, and the acquisitions of an Alberta Investment Management Corporation's portfolio by Goldman Sachs Private Equity Group, a Lloyds Banking Group's portfolio inherited from HBoS by Lexington Partners, and a Calpers portfolio by AlpInvest in 2011.

"The current concern is that the market may have heated up a little. Dry powder has been deployed rapidly, and there seems to be less pressure on secondary buyers to deploy capital now. Some may want to pause and test whether their valuation models will be validated by a sustained economic recovery. But the current $35bn dry powder, slightly eroded by recent large transactions, is being replenished by active secondary fundraisings amounting to $25bn at the moment from many funds including Lexington Partners, Coller Capital, Axa Private Equity and Credit Suisse at an encouraging pace."

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