Dear Valued Reader,

Welcome to the July 2014 edition of the Venue Market Spotlight. Throughout the course of the first half of this year there has been a lot of talk about 2014 being a deal-making revival period for the global capital markets. In fact, in our May Spotlight, respondents noted the recovering global economy to be one of the foremost drivers to the current increase in overall M&A activity. This month, we are focusing the Spotlight on the private equity and venture capital investing landscapes, which are two areas particularly seeing a lot of activity this year.

In the midst of successful exits and thriving IPO markets, respondents in this month’s Spotlight expect both private equity and venture capital deal-making to rise over the next 12 months. An improved US economy giving firms greater confidence in investment opportunities and the abundance of attractive targets are the main driving forces behind the acquisitions by these private equity and venture capital firms.

In Q1 2014, private equity exits reached the highest valued level of any year since 2001, totaling $111.9bn, with the average deal size reaching $589m. In the US, Q1 2014 closed with private equity exits at a total of $10.2bn, 66.5% higher than Q4 2013. Interestingly, the healthcare sector, in particular, saw a notable influx of capital investment in Q1 2014, with multiples nearly reaching pre-crisis levels.

Venture capital activity seems to be mirroring private equity thus far this year, with Q1 2014 venture-backed deals reaching $9.99bn invested across 880 deals. This is an increase of over 44% in funding alone from the same quarter in 2013. US venture-backed exits in Q1 reached the highest number of deals since 2000, with venture-backed M&A deals increasing by 69% from Q1 2013. With the total number of $1 bn+ valuations in Q1 2014 equal to that in all of 2013, it is apparent that venture capital firms are willing to pay more to participate in funding rounds across the board this year, due to the nature of such an active market. From a sector point of view, technology investments are seeing the most venture interest, with cyber-security being the main focus, as we noted in last month’s Spotlight.

At RR Donnelley, we understand the needs of the investing community. In 2013 alone, our financial services group serviced over 70% of all private equity backed IPOs. As we look to the second half of 2014, predictions continue to tell us that we are upon a record deal-making year and we look forward to meeting the needs of the deal-making community one deal at a time.

As always, thank you for your interest in this month’s Spotlight.

Sincerely,

Tom Juhase
President, Financial Services Group
RR Donnelley
FOREWORD

Venture capital and private equity activity is set to rise over the next 12 months, according to respondents from firms across the globe interviewed for this month’s Spotlight. Backed by a considerable amount of capital and aided by an environment that offers successful exit opportunities, these firms are seeking investments that have growth prospects and can offer sizable returns. “There are a significant number of companies that have dynamic platforms in their formative stages that are on the venture capital radar,” says a US-based partner at a venture capital firm. “Many of these companies have shown potential through innovation and can offer high returns.”

The high-growth sector of technology, media and telecommunications (TMT) is at the top of the list for venture capital and private equity firms who are looking for profitable investments. This portion is awash with companies trying to fill the rising need for advanced technology in various industries ranging from healthcare to financial services. Respondents say that they find TMT attractive due to its direct link to consumers and constant innovation in the sector.

Despite the relatively significant supply of targets with growth prospects, high valuations have given way to competition in the search for companies that can provide high returns without costing too much.

Turning attention specifically to venture capital activity, North America emerges as the top region for this type of investment, mainly driven by activity in the US. Venture capital is also targeting Asia-Pacific companies, specifically in China and India, citing these countries’ positive growth prospects. These firms are also more interested in later-stage investments, which allow them to get a quicker turnaround on their money as the time between investment and revenue realization is abridged.

‘‘
TMT is at the top for firms looking for profitable investments.
’’
SURVEY

What do you expect to happen to the number of venture capital financings/private equity buyout activity over the next 12 months?

Respondents expect both venture capital and private equity activity to increase over the next 12 months. This optimism is largely attributed to the healthy exit environment for both segments. “Aside from the flourishing IPO market, there have been recent high-profile exits through acquisitions. These deals have increased the confidence among venture capital and private equity firms,” says a partner at a US-based venture capital firm. Examples of these transactions in Q1 2014 include acquisitions by a popular social media site of a mobile messaging application and of a company that develops technology related to virtual reality.

The amount of capital raised by both venture capital and private equity firms has been trending upwards. According to National Venture Capital Association, there was US$8.9bn raised in venture capital in Q1 2014, which is set to outpace 2013, with the yearly total of US$16.9bn. The Private Equity Growth Capital Council’s data also shows that US private equity fundraising rose 43% to US$33bn in Q1 2014 from US$23bn over the same period last year.

What do you expect will drive venture capital/private equity activity over the next 12 months?

Respondents believe venture capital activity will be largely driven by an increasing number of firms with strong growth potential. “There are many companies that have attractive platforms, solid fundamentals and innovative ideas through which they can add value to venture capital investments,” according to a UK-based partner in a venture capital firm. For both venture capital and private equity firms, the main investment drivers include the availability of cash and better economic conditions. “Both private equity and venture capital firms have accumulated capital over the last five years that they are aiming to deploy given current market conditions that are favorable to investments,” says a managing partner at a European private equity firm.

CASH ON HAND AND HEALTHY ECONOMY DRIVE M&A
Which sectors are the most likely to see venture capital/private equity activity over the next 12 months? (Select top three)

Not surprisingly, respondents pick TMT as the top sector for venture capital investments and the second most popular segment for private equity investments. TMT has many dynamic subsectors including online retail, healthcare IT, cloud computing, and information security. Companies in these segments are attractive to investors because, given the flourishing acquisition and IPO markets for these types of firms, there is only a short time period leading up to the time when investors can get a healthy return on their investments. Meanwhile, private equity firms are expected to tap opportunities in the energy sector given the high global demand for these assets as well as the abundance of potential targets in the oil and gas sector including shale gas assets particularly in the US.

VC AND PE TAP TMT OPPORTUNITIES

What do you expect are the greatest challenges that will be facing venture capital/private equity over the next 12 months?

Respondents state that the leading challenge to venture capital firms over the next 12 months is deal competition while private equity firms are more concerned about the current high valuations of target companies. “Competition is a major challenge that places pressure on valuations,” says a US-based venture capital partner. Despite the fact that there is a fair number of targets with growth prospects, but since they are highly valued, there is still competition to find companies that will offer high returns without paying a hefty amount.

In terms of private equity, high company valuations are also causing some problems. With the improving economy and a healthy IPO market, many sellers have high expectations of how much their companies are worth, while buyers remain wary about overpaying for targets. “Valuations quoted by the companies are not realistic and private equity firms are unwilling to pay up since market conditions do not justify such high price tags,” an Asia-Pacific partner states. Performing accurate financial modeling to determine the value of investments is also an issue faced by both venture capital and private equity firms.
Which venture capital investment stage is the likely to see the most financing activity over the next 12 months?

Respondents are split between the later and formative stage as to which one will receive the most financing over the next 12 months. Only 20% of respondents think that early stage companies will get the most funding over the time period. Respondents expect investors to gravitate toward companies that have become less risky because they have already demonstrated some growth potential and offer products that have proven their viability. Some respondents say this trend is driven by venture capital’s desire to quickly monetize their investments. “Venture capital is interested in investing in either formative or later stage companies that offer a shorter time frame for revenue generation,” says an Asia-Pacific managing director for venture capital firm. Another factor that might be driving this trend is that it currently costs less to build businesses due to the increased use of cloud-based computing and other advanced technology. Thus, there is less of a need for early stage financing because of reduced infrastructure expenses needed to start a business.

From a regional perspective, close to half of respondents (47%) believe that North America and roughly a third of respondents think that Asia-Pacific will see the most venture capital activity over the next 12 months. Driving North American venture capital funding are US-based firms. As an Asia-Pacific-based partner says, “Though venture capital activity is increasing everywhere, especially in emerging markets, the US is still the leading market for venture capital as investors are feeling confident about the country’s economic conditions.” In Asia-Pacific, close to a quarter of respondents think China and roughly a fifth of respondents think India will drive venture capital activity in the region. “Both countries have proved to be attractive successful destinations for new business ventures given their growth prospects and their emerging middle class,” says a Europe-based private equity partner, who also cites the significant talent available in these markets.
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Notable Q2 deals in the room
Venue® data room: A special report

Imprivata IPO
June 25, 2014
Issuer: Imprivata
Counsel for Issuer: Goodwin Procter LLP
Counsel for Underwriter: Wilmer Cutler
Pickering Hale and Dorr LLP
Underwriter(s): JP Morgan; Piper Jaffray; William Blair; Wells Fargo
Securities; Stephens Inc.
Industry: Prepackaged Software

Arista Networks IPO
June 9, 2014
Issuer: Arista Networks
Counsel for Issuer: Wilson Sonsini Goodrich & Rosati P.C.
Counsel for Underwriter: Latham & Watkins LLP
Underwriter(s): Morgan Stanley; Citigroup; BoM Merrill Lynch;
Barclays; Credit Suisse; Deutsche Bank Securities; RBC Capital
Markets; Wells Fargo Securities; Cowen and Company; JMP
Securities; Needham and Company; Oppenheimer and Co.; Pacific
Crest Securities; Raymond James; Stifel; The Juda Group and
William Blair
Industry: Computer Communications Equipment

Insight Venture Partners and GIC Special Investments Pte Ltd., acquire
iParadigms, LLC, from Warburg Pincus LLC and Mason Slaine
June 2, 2014
Target: iParadigms LLC
Counsel for Target: Clifford Chance LLP; Wilkie Farr &
Gallagher LLP
Private Equity Buyer: GIC Special Investments Pte Ltd.; Insight Venture Partners
Financial Advisor for Buyer: Credit Suisse
Counsel for Buyer: Sidley Austin LLP; Goodwin Procter LLP
Private Equity Seller: Warburg Pincus LLC
Financial Advisor for Seller: Evercore Partners Inc.
Industry: Computer software; Internet / ecommerce

Oracle acquires GreenBytes
May 15, 2014
Target: GreenBytes
Financial Advisor for Target: Evercore Partners Inc.
Advisor for Seller(s) Private Equity Firm: Battery Ventures
Industry: Computer; Hardware; Computer services

Golden Gate acquires Phillips-Medisize
May 7, 2014
Target: Phillips-Medisize Corporation
Financial Advisor for Target: Goldman Sachs
Financial Advisor for Buyer: Deutsche Bank AG; Robert W. Baird & Co. Inc.
Counsel for Buyer: Kirkland & Ellis LLP
Private Equity Firm for Buyer: Golden Gate Capital
Private Equity Firm for Seller: Kohlberg & Company LLC
Industry: Chemicals and materials; Industrial products and services; Medical

WalmartLabs acquires Adchemy
May 5, 2014
Target: Adchemy, Inc.
Private Equity Seller: August Capital; Mayfield Fund; Sand Hill Capital
Industry: Media; Advertising

Exelon acquires Pepco
April 30, 2014
Target: Pepco Holding
Financial Advisor for Target: Lazard; Morgan Stanley
Counsel for Target: Covington & Burling LLP; Davis Polk & Wardwell LLP; Sullivan &
Cromwell LLP
Financial Advisor for Buyer: Barclays; Goldman Sachs; Loop Capital Markets
Counsel for Buyer(s): Baker Botts LLP; Fried Frank Harris Shriver & Jacobson
LLP; Kirkland & Ellis LLP; Weil Gotshal & Manges LLP
Industry: Energy; Utilities (other); Electrical power; Transmission; Integrated utilities

Warburg Pincus acquires Electronic Funds Source
April 16, 2014
Target: Electronic Funds Source LLC
Financial Advisor for Target: Goldman Sachs; SunTrust Robinson; Humphrey Capital Markets; Wells Fargo Securities, LLC
Counsel for Target: Horvath Howard Hyne Gabbett & Maner PC; White & Case LLP
Financial Advisor for Buyer: Credit Suisse; Deutsche Bank AG
Counsel for Buyer: Cleary Gottlieb Stearn & Hamilton LLP
Private Equity Buyer: Warburg Pincus LLC
Financial Advisor for Seller(s): FF Capital Management LLC; CIP Holdings LLC; First Data Transportation Services Inc.
Industry: Services (other); Transportation; Business support services; Other services

GrubHub IPO
April 4, 2014
Issuer: GrubHub
Counsel for Issuer: Kirkland & Ellis LLP
Counsel for Underwriter: Skadden Arps Slate Meagher & Flom LLP
Underwriter(s): Citigroup; Morgan Stanley; Allen & Company LLC; BMO Capital Markets; Canaccord Genuity; Raymond James; William Blair
Industry: Business Services; Not Elsewhere Classified

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Venue demo (audio enabled):
http://www.rrdonnelley.com/venue/
Resources/ProductDemo.asp

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Venue is a secure online workspace with a powerful feature-set and an intuitive design that allow you to easily organize, manage, share and track all of your sensitive information. Venue data rooms provide complete control, ensuring that you can manage who has access to your data room, which documents they see, and how they can interact with those documents.

Venue data rooms are backed by RR Donnelley, a $10.2 billion corporation with more than 500 locations and over 55,000 employees worldwide. RR Donnelley’s total revenues are larger than all other virtual data room providers combined. We bring extensive experience to providing integrated communications services.

For more information regarding Venue, RR Donnelley, or this report, please contact us directly.

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