DEALMARKET

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SEE WHAT'S NEW AND NOTEWORTHY IN PRIVATE EQUITY THIS WEEK /// ISSUE 46

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CROWDFUNDING GAINS MOMENTUM IN THE US

A new legal framework for crowdfunding has been enabled in the US as a result of the government's Jobs Act. There has been lots of media coverage, as well as OpEds on the development. Salon has a good two page article that serves to provide an overview of what has been said, what crowdfunding actually is in relation to the Jobs Act, its history, and what it means for investors and companies. Dealmarket Digest intends to cover crowdfunding news in US, also in Europe and the rest of the world. It is probably the most interesting, innovative, and potentially controversial development in private equity and venture capital in recent times.

FOLLOW-ON OFFERINGS PROVIDE EXIT, NOT THE IPO

IPO activity has fallen 11.3 percent but secondary offerings are up, reports Reuters. Many of the offerings come from companies that have large stakes held by PE firms who did not sell their shares in the IPO, according to the article, which posits that PE backers first sell small portions of their investment in the IPO to get a feel for demand before they try to exit by selling their stakes further if the stock price remains high in a secondary offering. Some examples are Dunkin' Brands, Nielsen Holdings and Dollar General Corp. Some of these follow-on offerings are taking place a few months after the IPOs. It is unusual for newly public companies to take the tactic, according to the article but it is a trend with now with several examples identified by the reporter, including Guidewire Software, Michael Kors Holdings, and Zynga.

PE FUNDRAISING DOWN IN THE US

US PE funds raised USD 4.9 billion, which is 35% less than raised in the same period of 2011, according to the NVCA's latest statistics as reported in the OC Register. The number of funds raising money declined by 9%. "U.S. fund-raising may not be off to a roaring start, but it's also not stalled in the driveway," said Laura Kreutzer, managing editor of Dow Jones Private Equity Analyst in the article, suggesting that PE funds have been busy exiting companies and will be able to raise new funds when the returned capital starts to flow.

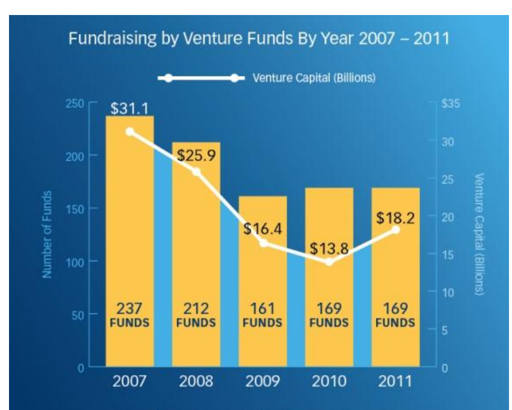


Image source: NVCA

PE FUNDS AND FIRMS CONTINUE TO CHANGE OWNERS

HSBC has sold a 19.9% stake in private equity firm Montagu Private Equity LLP to MLLP Holdings Ltd., a company indirectly owned by Montagu's management, according to WSJ. The deal is the latest in a sell off private equity holding by banks and pension funds. In California, Calpers is reportedly selling a mix of mostly venture capital and buyout funds raised since 2000, according to Bloomberg.

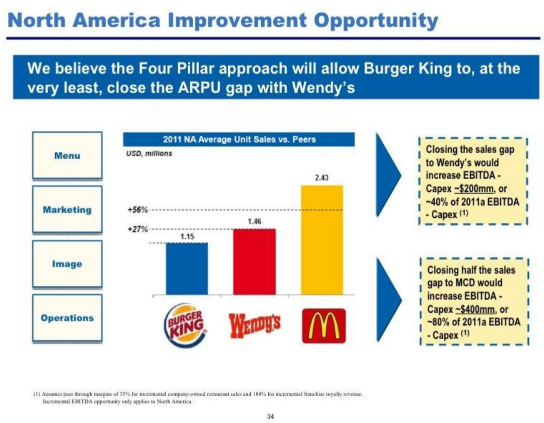
The reason for the sell off is that LPs are trying to free up cash for new funds or reduce their number of managers to concentrate on best performing GPs. The Calpers sale will be among the largest deals currently on the secondaries market. It includes entire stakes in funds rather than partial positions, according to the report.

MORE IPOS FOR PE FIRMS IN THE WORKS

Two more IPOs for PE fund managers are in the works. Oaktree Capital Group, a distressed-debt PE fund manager will launch a USD 517.5 million IPO, reports Bloomberg. It will precede Carlyle Group LP's IPO, which is planned later this year. The two founders of Oaktree are the main sellers of a 40% share in the company. Carlyle is only selling a 10 percent stake in the IPO, with existing owners retaining 90 percent, according the report.

The post-IPO track record for PE firms is not that great, says the Bloomberg report, particularly for those that went public between 2007 and 2009. Blackstone Group which floated in 2007 is now trading at half its IPO price, while Fortress Investment Group has declined by 80 percent and Apollo Global Management has also lost value in the meantime. Only KKR is up since its IPO in July 2010.

QUOTE OF THE WEEK: JUSTICE AND BURGERS



"Justice Is A Dish Best Served Flame Broiled…"

Who said it: Bill Ackman, CEO of Pershing Capital Mgmt, a hedge fund manager

In Context: The quote is the lead to a presentation that Business Insider made available to readers on the investment case for Burger King's acquisition by Justice Holding. BK is poised for an IPO post-merger, according to the FT. The restaurant chain was acquired by PE investor 3G Capital only eighteen months ago. Skepticism about PE backed IPOs is not unusual in the past few years, and this one is no different, except in the volume of media coverage. Perhaps it is because the target company is so well known to consumers. Justice is a UK holding firm that was co-founded by William Ackman and several other wealthy investors, according to the report. The combined company will then float on the NYSE. The issue for analysts is that 18 months isn't long enough to do a turnaround. 3G has been cutting Burger King's costs, and up scaling the menu with high-margin products like smoothies and salads. Burger King is now the number three hamburger chain worldwide. McDonald's leads, followed by Wendy's. Ackman has had investments in both of these other fast food chains in the past.

Where we found it: Business Insider

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Editor: Valerie Thompson, Zurich

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