The Pulse of Private Equity – 7/11/2016

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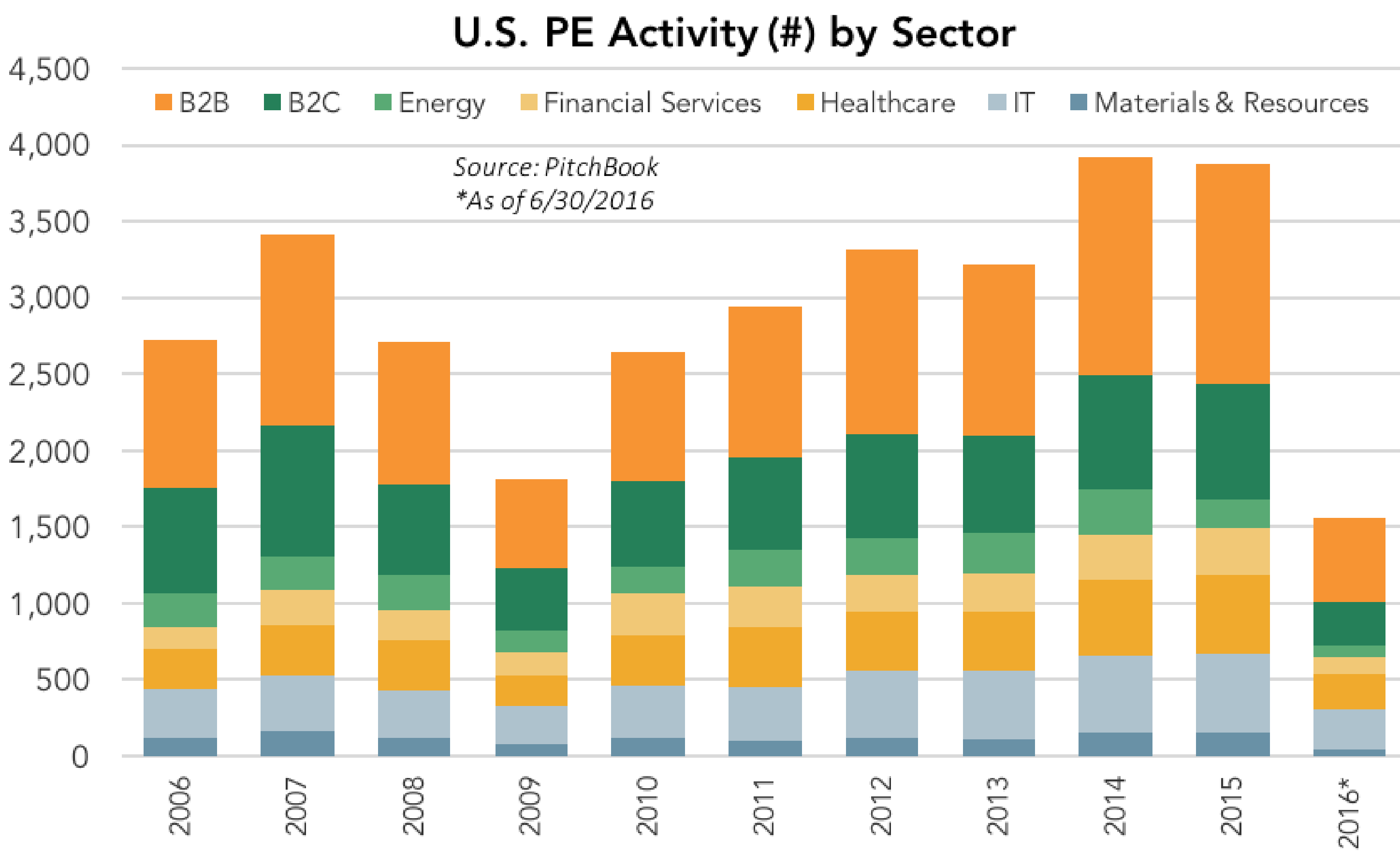
IT Remains a Favorite of PE Firms

As private equity activity in the U.S. has slackened, nearly every sector has experienced a decline in overall volume of investments, barring one. Only the information technology sector is seeing a rate of PE dealmaking comparable to that of last year, with 261 closed transactions through the end of June 2016. Software is pervading every industry – some already view every company as a technology company, and, in a way, they aren't wrong, although it would be more accurate to dub every company as information technology-enabled.



What's helping drive IT's overall resilience, however, is the relative attraction of software businesses, among other of that sector's segments, as competition remains intense and quality targets few in more traditional areas of PE focus, incentivizing investors to diversify their strategies. Long-time IT investors such as Thoma Bravo or Vista Equity Partners remain most notable among the cadre of currently active PE firms; looking at their most recent, high-profile investments helps shed light on what PE investors find alluring in software businesses. For example, Vista Equity's purchase of Solera Holdings, a company that develops risk and asset management software for automotive and property marketplaces, illustrates how a natural entry point for PE firms is when a given market has already undergone considerable consolidation. Granted, firms with considerable operational expertise and deep resources such as Vista Equity are best placed for that particular scenario, while those focused on the middle market can target consolidation through add-ons to extant platforms as a driving strategy, much as Marlin Equity Partners has with its Changepoint acquisitions.

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