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# Buyouts

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## Who Took The 2007 Vintage Gold Medal?



THOMSON REUTERS

Vista Equity Partners  
Takes The Gold Medal  
For The Top Performing 2007  
Domestic Buyout Fund

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adjust their strategies to new economic realities and not to have to care for sick portfolio companies purchased in healthier times.

Some firms enjoyed far more than luck. They were patient. "One thing we learned is that in the first 12 months of a downturn you don't invest," said **Michael Psaros**, managing partner and co-founder of New York turnaround shop **KPS Capital Partners**, pointing to the 20 years of experience he and his partners have investing together, through four down cycles. In fact, prices looked too high to KPS Capital in both 2008 and 2010, while the year in between saw many turnaround firms invest heavily only to realize the economy still had a ways to fall before rebounding only feebly. "We stood back and watched

large amounts of [turnaround] capital chasing falling knives and being incinerated contemporaneously with their investments," said Psaros.

The firm, which closed a \$2 billion fund in November 2007, deployed its capital very selectively until 2011, when finally conditions turned to its liking. In the last 12 months the firm has seen a burst of activity, investing 35 percent of the fund's capital, and launching five platform companies, out of the 10 in the fund; its latest is Waupaca Foundry, one of the world's largest iron foundry companies. The firm still has 25 percent of the fund left to deploy before November 2013, when its six-year investment period ends. While yet to exit any of its Fund III investments, and holding its latest

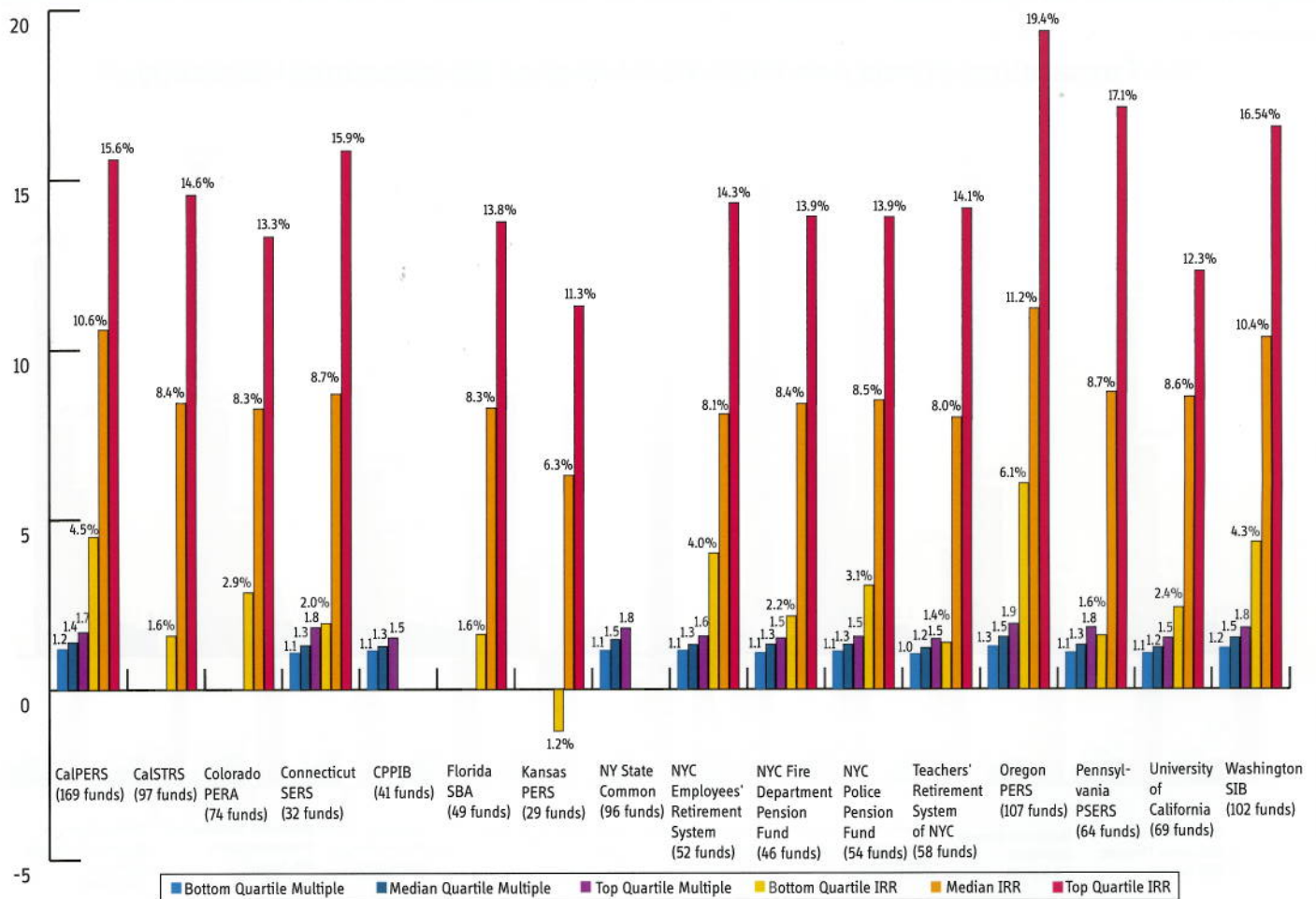
deals at cost, the firm through dividend recaps has returned all invested capital plus a profit in three portfolio companies, among other distributions.

As of year-end, the KPS Special Situations Fund III LP had generated a 1.70x investment multiple and a net IRR of 22.50 percent for backer **California Public Employees' Retirement System** (after a premium carried interest of 25 percent). That makes it one of the best-performing in our collection of 2007 vintage funds.

**Vista Equity Partners Fund III** takes the gold medal for the top-performing 2007 domestic buyout fund in our database for which we have IRRs (see table, p. 6). Through March 31 the fund, earmarked for investments in software and technology companies,

## Oregon PERS Domestic Buyout Portfolio Leads The Way

(All Domestic Buyout/Corporate Finance Funds Through Vintage 2007)



Source: The limited partners; not all funds provided both IRR and investment multiples

## COVER STORY

has generated a 33.80 percent IRR and a 2.08x investment multiple for backer **Oregon Public Employees Retirement System**. **Robert F. Smith**, the chairman and CEO of Vista Equity, attributed that result in part to "exceptional transaction execution" and to a "relentless" focus on improving company performance. A 12-member consulting team on staff introduces some 50 best practices (so-called Vista Specific Operational Improvements, or Vista SOPs) to portfolio companies, including a system of staff training. "We install them in every single company we buy, without fail," said Smith. "Our involvement is measured in man-years, not man-hours."

The effort pays off. According to Smith, the firm has yet to lose money on any of its more than 60 control-stake transactions

over its 12-year history. And the half-dozen or so platform companies in the 2007 vintage fund barely seemed to have touched by the weak economy: EBITDA growth across the portfolio stands at 4.2x, Smith said.

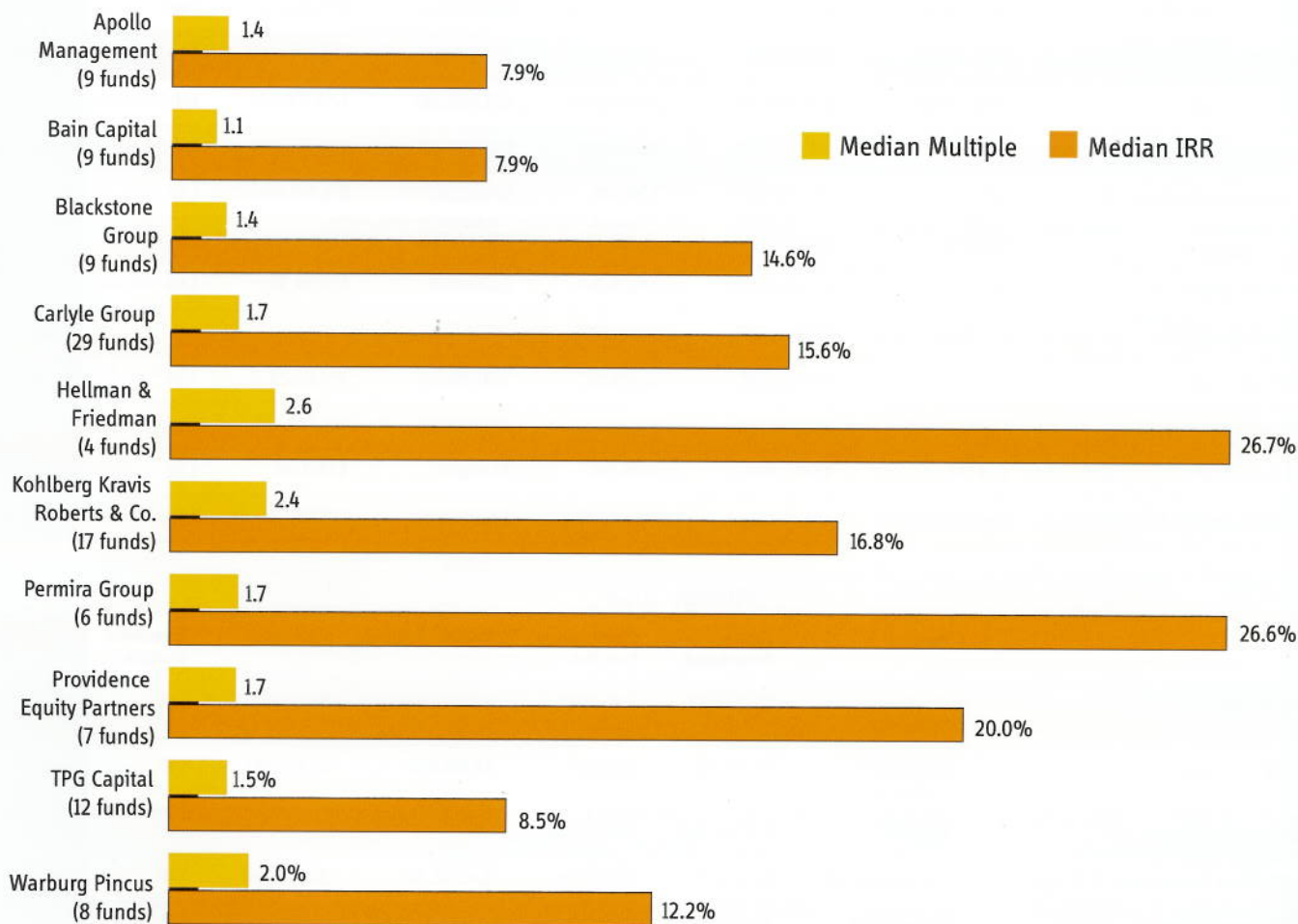
One of the best-performing companies from Fund III was Sunquest Information Systems, which the firm sold to Roper Industries Inc. late last month for \$1.4 billion. Under Vista Equity's ownership, the laboratory diagnostics software company became more focused by reducing its new-product-development channel to fewer than 20 products from some 57. It expanded sales of a promising bar-code-based specimen collection management system that reduces errors in hospital lab work. And it completed a series of add-on acqui-

sitions. EBITDA grew to \$121 million from \$47 million over a five-year holding period and the firm ended up generating a 5.4x cash-on-cash return on the deal, according to Smith.

Vista Equity's performance has been so consistently strong that, for its oversubscribed \$3.5 billion fourth fund closed this spring, LPs agreed to a 30 percent carried interest should the firm achieve a 3x investment multiple.

In easier fundraising times a performance-based carry like that might be taken as symptomatic of a bubble. Today, with LPs highly selective, and determined to drive down costs, it's a welcome reminder that investors are still willing to reward hard work and exceptional results. ♦

### How The Mega-Firms Fared (All Fund Types, All Vintage Years, Through 2007)



Source: The limited partners; not all funds provided both IRR and investment multiple; results are based only on the funds we have in our database and shouldn't be considered complete or representative for individual firms