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One Fund at a Time

By Marc Raybin

It may not be that the good times are rolling again, despite the recent stock market uptick, but perhaps there are ever so slight indications within the private equity space of growth. Fund-raising has been down for a long time, and the asset class is probably a long time away – if ever – to returning to the days of multi-billion-dollar fund closings, but there have been some larger funds closing lately than there have been in the recent past. Far be it from us to call a bottom to the recession, but the sizes of these funds are worth noting.

In the latest big fund-closing, Thoma Bravo announced it completed raising capital for Thoma Bravo Fund IX on $822.5 million. The firm said this was their "hard cap" for the new fund, which was oversubscribed. Orlando Bravo, a managing partner at the firm, said the new fund was oversubscribed by more than $50 million.

The new fund will look to make roughly 15 investments, according to Bravo, in a number of sectors, including software, business and financial services, and education. The firm made its first investment from the new fund in April 2008, when it acquired Acresso Software, a provider of installation and license management software. The firm bought the portfolio company for $200 million. Managers from the fund also invested in Manatron, a provider of property tax software in order to buy Software Techniques, a supplier of computer assisted mass appraisal software to government property appraisal districts.

Bravo, who said it took the firm a year to raise the newest fund, called the capital raising environment "very challenging." While about two-thirds of the 50 limited partners in the new fund were repeats, with the bar being set higher for investors in the recession, even those who knew the firm well were spending more time conducting due diligence on Thoma Bravo. He did point out that having an established business made fund-raising a bit easier in this tough environment.

“Everybody is going back to the drawing board,” said Bravo. Investors included state pension plans, large private pension funds, corporations, funds-of-funds, endowments and foundations.

It seems like ages ago when private equity firms announced the closings of multi-billion dollar funds. Combined with the incredible amount of leverage available, these funds seemed to be limitless in their capacity to buy portfolio companies at nearly any price. With the credit markets having turned off the spigots and investors pulling back, fund sizes have noticeably shrunk.

According to the latest numbers released by industry trade organization the National Venture Capital Association (NVCA), venture fund-raising declined to only $3.3 billion in the fourth quarter after having averaged more than $5 billion per quarter since early 2006. The asset class reached a high of $14.5 billion in the second quarter of 2006. According to Emily Mendell, a spokeswoman from the NVCA, the organization would not be surprised to see another sub-$5 billion fund-raising number for the first quarter when the numbers are released shortly.

Mendell echoed Bravo’s remarks about having a history to rely upon in the minds of investors. That could be a problem for some venture capitalists, as they are struggling to raise follow on funds.

“It is hard to establish the track record you need,” she said.

Thoma Bravo is one of a handful of private equity firms that have announced large fund closings despite the overall poor fund-raising environment. For instance, last week Odyssey Investment Partners closed on a new $1.5 billion vehicle. At the start of the month, The Carlyle Group closed on its second mezzanine fund on $533 million. In February, Danske Private Equity finished raising a fund-of-funds on €600 million ($781 million) and in harkening back to the good ol’ days, Lone Star Funds was reported to have been raising two new real estate funds totaling $20 billion.

Thoma Bravo is based in Chicago and San Francisco and was established more than 28 years ago. Portfolio companies’ enterprise values are typically between $100 million and $500 million each. Thomas Bravo currently manages about $2.5 billion in capital.

It may be a long time before the asset class gets back to the days of 2007 when limited partners found themselves shut out of funds because there was so much money flooding in, but with a few large fund closings here and there, other limited partners may gain the confidence and inspiration to entrust their capital with private equity firms.