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Deal Of The Year Awards

Buyouts AWARDS 2013

CHS Capital Spawning Three PE Firms

New Mountain Capital, LLC
Large Market Deal of the Year

THOMSON REUTERS

LARGE MARKET DEAL OF THE YEAR
New Mountain Capital LLC

Deltek Showcases Buy-And-Grow Model

At the height of scrutiny around job cuts by private equity firms during the 2012 presidential election, **New Mountain Capital LLC** sold **Deltek Inc.** for $1.05 billion after adding 945 employees in about seven years through a combination of organic growth and acquisitions.

The deal delivered a big profit for the New York buyout shop. The firm generated a return multiple of 5.3x on equity thanks in large part to EBITDA at Deltek growing to an estimated $95 million in 2012 from $37 million in 2005, despite the impact of the 2008-2009 recession. "Our firm emphasizes growth and business building, rather than debt and excessive risk, as its path to returns," said **Steven Klinsky**, chief executive officer of New Mountain Capital.

Along with Klinsky, members of the Deltek team at New Mountain included Managing Directors **Mike Ajouz**, **Pete Masucci** and **Alok Singh**; along with Senior Advisor **Bert Notini**, Director **Matt Ebbel**, Vice President **Jack Qian** and Associate **Teresa Teodori**.

Currently managing more than $9 billion in assets, New Mountain began investing its first private equity fund, the $770 million **New Mountain Partners**, in early 2000. The firm was founded in 1999 by Klinksy, who had earlier co-founded the leveraged buyout group of **Goldman Sachs & Co.** in the early 1980s before moving on to **Forstmann Little**.

By late 2004, New Mountain had invested in Apptis Holdings, an information technology services specialist for the federal government. While managing Apptis, New Mountain became aware of Herndon, Va.-based Deltek Inc. as a niche leader in software designed to help government contractors with revenue recognition, cost allocations, timesheets/expenses, proposal building, materials tracking and billing for projects.

Singh held his first meeting with the company in late 2004. It turned out that Deltek had been looking for a successor for its chief executive officer, **Ken DeLaski**, but it was not formally up for sale. New Mountain negotiated an exclusive, proprietary transaction to buy 75 percent of Deltek in 2005 with the target's enterprise valued at about $335 million, or 9.5x EBITDA at the time. The DeLaski family, which founded the company, kept 25 percent of the company as part of New Mountain's model of teaming up with owners. Tapping into its $1.5 billion New Mountain Fund II, the firm invested $75 million structured as debt and $105 million as common equity. Third-party debt amounted to less than 4x EBITDA. Although the company could have raised much more debt, New Mountain stuck to its habit of using a "strong balance sheet to enable portfolio companies to increase research, increase sales efforts and build other drivers of accelerated, acyclical growth," said **David Coquillette**, managing director of New Mountain. With its capital structure in place, New Mountain focused on growing the mid-market family business. The key was management.

New CEO

Kevin Parker, PeopleSoft's co-president and chief financial officer, attracted interest from the New Mountain team after Oracle bought PeopleSoft for $10 billion.

"I got his cell number and I talked to him," Singh said. "I said, 'I have a great opportunity for you — would you be interested in exploring it?' He had never heard of Deltek but he got to know the firm and the franchise. He thought it would be an interesting business."

In a coup for New Mountain, Parker joined Deltek as chief executive officer four months after Singh's initial call. Deltek floated its initial public offering in 2007. Including its IPO proceeds from Deltek, New Mountain had by that point paid $150 million to limited partners out of their original $180 million investment.

When the recession took hold, Deltek's profits held steady, but its stock price fell sharply with the broad equities market. New Mountain reinvested $47 million in Deltek as part of a $60 million rights offering in May, 2009. After the $3-a-share rights offering, the fund's ownership increased to more than 60 percent of all shares and Deltek's balance sheet strengthened.

All told, New Mountain made 11, mostly smaller, add-on acquisitions for Deltek. Employment grew to 1,675 from 730, including 139 jobs from organic growth and 806 from acquisitions. Deltek's client list jumped to 15,000 from 9,000. From less than 5 percent of revenue outside the United States, Deltek's international business grew to about 29 percent. The firm held an auction for Deltek in 2012. Mid-market private equity firm **Thoma Bravo** bought Deltek for $13 a share in October, more than quadruple the $3-a-share price of the rights offering.

The Deltek deal returned $635 million in cash, including $75 million of debt repaid in 2006, plus $6 million in interest. Also included in the $635 million was $554 million of cash returned on $105 million in equity.

While the S&P 500 total return index grew at a 5 percent rate over the same period with a 1.5x multiple of invested capital, the Deltek deal provided a 5.3x multiple on equity for a 27.8 percent gross internal rate of return.

The deal stands out as a poster child for New Mountain founder Klinsky's effort as chairman of the growth capital committee within the Private Equity Growth Capital Council.

"Private equity, when properly executed, is a proven asset class that can deliver superior returns to its investors and can provide capital, create jobs and drive positive economic activity at a time when our economy badly needs such support," Klinsky said in a 2011 post on *The New York Times DealBook* blog.

"We're trying to deliver on that," Klinsky told *Buyouts*. "We've never had a portfolio company go bankrupt and we've never missed a debt payment." *–S.G.*

SNAPSHOT:

Firm: New Mountain Capital LLC
Target: Deltek Inc.
Sale Price: $1.05B
Hold Period: 7 years
Return Multiple: 5.3x on equity

Buyouts AWARDS 2013

WHY THE FIRM WON

- Company acquired in an exclusive, proprietary deal
- CEO recruited from larger company
- Employee count rose to 1,675 from 730 through acquisitions, organic growth
- Successful exit through auction sale to Thoma Bravo in 2012