2015 Preqin Global Private Equity & Venture Capital Report

Sample Pages

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The 2015 Preqin Global Private Equity & Venture Capital Report - Contents

Data Source:

The 2015 Preqin Global Private Equity & Venture Capital Report contains the most up-to-date data available at the time of going to print. For information on how to access the very latest statistics and data on fundraising, institutional investors, fund managers and performance, or to arrange a walkthrough of Preqin's online services, please visit:

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Data Pack for the 2015 Preqin Global Private Equity & Venture Capital Report

The data behind all of the charts featured in the Report is available to purchase in Excel format. It also includes ready-made charts that can be used for presentations, marketing materials and company reports. To purchase the data pack, please visit:

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Private Equity & Venture Capital - 2014 Key Stats

PRIVATE EQUITY AND VENTURE CAPITAL HIGHLIGHTS

$3.8tn

Private equity and venture capital assets under management reach a new high as of June 2014.

11.9%

Increase in dry powder on 2013. Total dry powder now stands at $1.2tn as at December 2014.

$495bn

Aggregate capital raised by private equity and venture capital funds in 2014.

$444bn

Total capital distributions in H1 2014. Momentum continues from the record distributions seen in 2013.

25.9%

One-year rolling horizon IRR to June 2014 shows venture capital outperforming all other strategies.

Buyout Activity

$332bn

Aggregate buyout deal value in 2014.

LARGEST BUYOUT DEAL IN 2014

The $11.53bn Tim Hortons Inc. add-on in August by 3G-backed Burger King.

$428bn

2014 saw 1,604 buyout exits, with an aggregate value of $428bn.

LARGEST BUYOUT EXIT IN 2014

The trade sale of Alliance Boots GmbH, acquired by Walgreen Co. for $15bn.

Venture Capital Activity

$86bn

Aggregate venture capital deal value in 2014.*

LARGEST VENTURE CAPITAL DEAL IN 2014

TAXI

Uber Technologies Inc. received $1.2bn in Series D financing in June, and a further $1.2bn in Series E in December.

$120bn

2014 saw 1,049 venture capital exits, with an aggregate value of $120bn.

LARGEST VENTURE CAPITAL EXIT IN 2014

The $25bn IPO of Alibaba Group in September 2014.

**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.*

Private Equity & Venture Capital in 2015 – A Competitive and Sophisticated Market

- Christopher Elvin, Preqin

Strong Fundraising and Continued Growth in AUM

The record levels of capital returned to investors in 2013 helped to facilitate another healthy year of fundraising in 2014, with $495bn of aggregate capital raised by 994 funds over the course of the year. This figure is likely to increase as more information becomes available, which means 2014 is on a par with fundraising levels seen in 2013, when $528bn was secured. 2014 also saw a $128bn increase in dry powder since December 2013, and combined with an increase in the unrealized value of portfolio assets, the industry's total AUM stands in excess of $3.8tn. As of January 2015 there were 2,235 funds looking to raise an aggregate $793bn; when compared against 2014 fundraising figures, this gives a clear indication of the level of competition currently in the market.

Returns

The PrEQIn Index, shown on page 62, confirms that the private equity and venture capital model is working, with superior returns compared to the public markets delivered over the long term. Preqin's latest investor survey also confirmed this, with 75% of respondents stating that they are satisfied with the returns they have seen from their portfolios, and a further 17% stating that returns have exceeded expectations.

Of particular note in 2014 was the improvement in venture capital performance. Previously tarnished by generally underwhelming returns for all but a few managers since the burst of the dot-com bubble, venture capital returns registered a one-year horizon IRR to June 2014 of 25.9%, the highest of all private equity strategies. Some institutional investors appear to have taken note of this change in fortunes, with 26% of investors surveyed in December intending to commit to venture capital vehicles in the next 12 months, a considerable increase from the 15% of respondents to the same survey the year before.

Deals and Exits

Improved market conditions in 2014 resulted in the highest ever aggregate exit value for private equity buyout fund managers, with a total of 1,604 exits globally valued at $428bn, 30% more than the total value of exits in 2013. This meant that as of June 2014 (the latest data available) $224bn had been returned to investors in buyout distributions, nearly the same as the full-year 2013 amount of $226bn and significantly more than total capital called, resulting in ongoing liquidity for investors.

The total value of buyout deals in 2014 reached $332bn globally, the highest annual amount since 2007, while a total of 7,475 venture capital financings were announced globally with an aggregate value of $86bn. This represents an 11% fall in number compared to 2013, but a 58% rise in aggregate value.

There is ongoing concern that high dry powder levels are increasing competition for deals, making it harder for GPs to find attractive investment opportunities which may ultimately impact returns. Sixty percent of buyout managers, 44% of growth managers and 39% of venture capital managers surveyed confirmed that they had seen a rise in competition for transactions compared to 12 months ago. Page 14 of this report provides some evidence that the asset class is managing to deal with the overhang; however, with GPs armed with readily available capital, competition for the best deals in 2015 is likely to remain rife.

Investor Appetite

Investor appetite for the asset class remains robust and many LPs are below their target allocations as a result of the disparity between distributed and called capital.

Forty-six percent of respondents to Preqin's latest investor survey are currently below their target allocations, compared to 39% of respondents in 2013 and 28% in 2012. Given LP satisfaction with returns, it is unsurprising that 79% of LPs surveyed are looking to maintain or increase their allocations to the asset class in the next 12 months.

The dominance of established managers continued in 2014, with just 7% of aggregate capital raised by first-time managers, the same level as in 2013. The percentage of LPs looking to increase the number of GP relationships in their portfolio fell by 11 percentage points compared to 2013, indicating new managers will have to present an even more compelling argument in order to secure LP capital.

LPs are becoming increasingly sophisticated and many are seeking alternative ways in which to access the asset class. More tailored solutions such as co-investments and separate accounts are attracting LPs due to lower fees, greater transparency and greater liquidity. Many GPs are responding accordingly; 53% of firms surveyed in December confirmed they are looking to offer more co-investment opportunities to investors.

Regulation

Regulatory reform continues to be a topic of concern and confusion among fund managers and investors alike. Forty-five percent of fund managers recently surveyed believe that changes in regulation will have a negative effect on the industry in 2015, 39% believe it will have no impact and 16% believe any changes will be positive. LPs also appear to be concerned with the impact such changes may have on their investments, with 21% of survey respondents citing regulation as one of the biggest challenges facing investors in the year ahead.

Outlook for 2015

2014 has been a successful year for the private equity and venture capital asset class and with healthy market conditions, cash-rich fund managers and generally content investors, 2015 has the potential to follow suit. However, significant challenges face both GPs and LPs.

While investors will be enjoying the liquidity delivered to them by ongoing high levels of distributions, the market is saturated with a record number of funds seeking capital, and investors consequently face the challenge of identifying the best investment opportunities. On the other hand, fund managers are confronted with intense competition, not only with fundraising, but also in finding attractive deal entry prices while at the same time having to meet increased demands from both investors and regulatory bodies.

Assets under Management

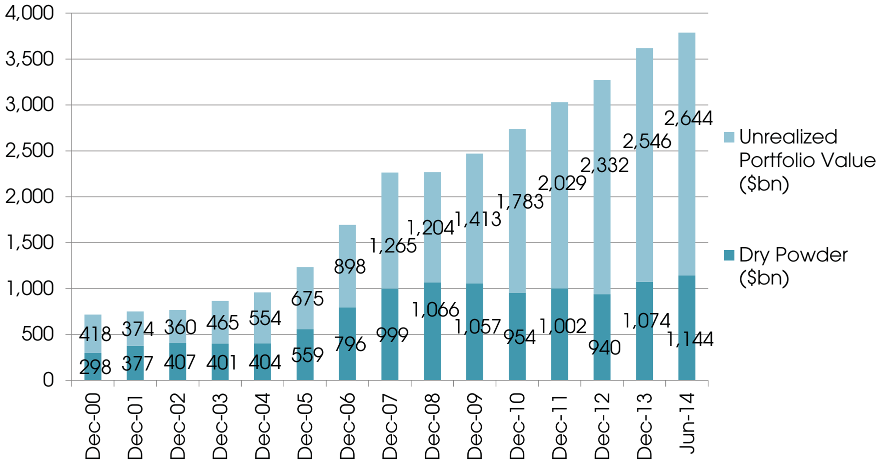
The private equity and venture capital industry's total assets under management* (AUM) continued to grow in 2014. Compared to June 2013, the total amount of dry powder available has increased by 9.3%, and a $224bn increase in unrealized portfolio values from December 2013 to June 2014 has driven total AUM to a new high of $3.8tn.

Fig. 3.1 shows the growth in the private equity industry's assets under management from December 2000 to June 2014. Between December 2008 and June 2014 total AUM has expanded by 66%. This growth has largely been driven by the increase in unrealized portfolio value of private equity and venture capital assets from $1.2tn to $2.6tn.

North America accounts for the majority of total AUM (57%), followed by Europe (24%), Asia (13%) and Rest of World (6%). This pattern is unsurprising given the varying levels of maturity of the industry across these regions; however, with the asset class gaining prominence in regions such as Asia, it is likely that these areas will become an increasingly important part of the private equity and venture capital universe.

Fig. 3.2 shows AUM as of June 2014 by vintage year. Vintage 2006-2008 funds still account for 38% ($945bn) of total AUM, a reflection of the high levels of fundraising and investment seen during the pre-crisis boom period and the challenging exit conditions which resulted post-2008. Compared to June 2013, this represents a 7% decrease for 2006-2008 vintage funds whose total AUM was valued at $1.05tn, confirming that fund managers have been able to take advantage of more favourable pricing and an improved exit environment over the last year.

Fig. 3.1: All Private Equity Assets under Management, 2000 - 2014



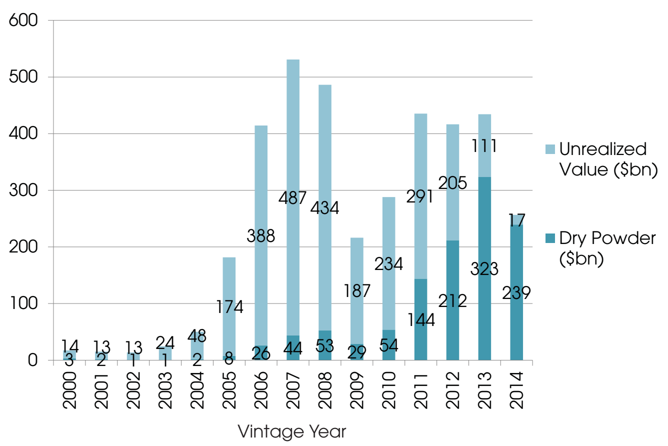
Source: Preqin Fund Manager Profiles and Performance Analyst

Dry Powder

Dry powder levels increased in 2014 by $128bn and stand at $1.2tn as of December 2014 (Fig. 3.4). Buoyed by improved fundraising over the last few years, buyout (13.3% up on 2013), growth (10.8%), real estate (16.9%) and venture capital (13.3%) funds all witnessed growth when compared to levels as of December 2013.

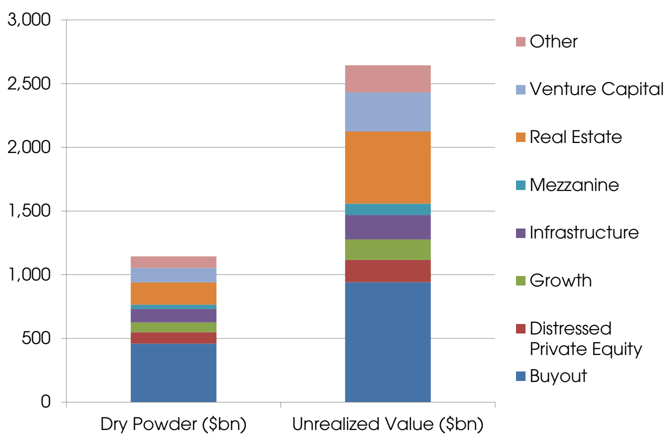
There has been much comment within the industry that continued growth in capital overhang levels will increase competition between GPs, push up deal prices and impact returns. Fig. 3.5 shows the ratio of year-end total dry powder levels to the total capital called in the previous year between 2001 and 2013. Despite dry powder levels reaching $1.1tn in

Fig. 3.2: Private Equity Assets under Management by Vintage Year as of June 2014



Source: Preqin Fund Manager Profiles and Performance Analyst

Fig. 3.3: Private Equity Assets under Management by Fund Type as of June 2014



Source: Preqin Fund Manager Profiles and Performance Analyst

Preqin defines a firm's assets under management as the uncalled capital commitments (dry powder) plus the unrealized value of portfolio assets.

Key Fundraising Stats

Aggregate Capital Raised by Private Equity Funds in 2014 by Primary Geographic Focus

A Competitive Marketplace

2,235 Number of funds on the road as of January 2015, up from 2,081 in January 2014.

51% Proportion of private equity and venture capital vehicles that closed above target in 2014.

17 Average number of months spent on the road by funds closed in 2014.

Fundraising Highs

$177bn Buyout funds secured the highest amount of private equity capital in 2014.

273 Number of venture capital funds closed in 2014, the highest of any fund type.

$180mn Average final close size of a venture capital fund in 2014, the highest for over a decade.

Fundraising Insight

$544mn Average fund size for all funds closed in 2014, a new record.

$9.6bn $9.6bn was raised by Asia-focused venture capital funds in 2014, 2.7x more capital than 2013.

$10.9bn Size of the largest fund to close in 2014: buyout vehicle, Hellman & Friedman VIII.

Preqin's **Funds in Market** provides comprehensive profiles for over 18,660 private equity funds closed historically and over 2,200 currently in market, including information on fund type, investment preferences, target and final close size and much more.

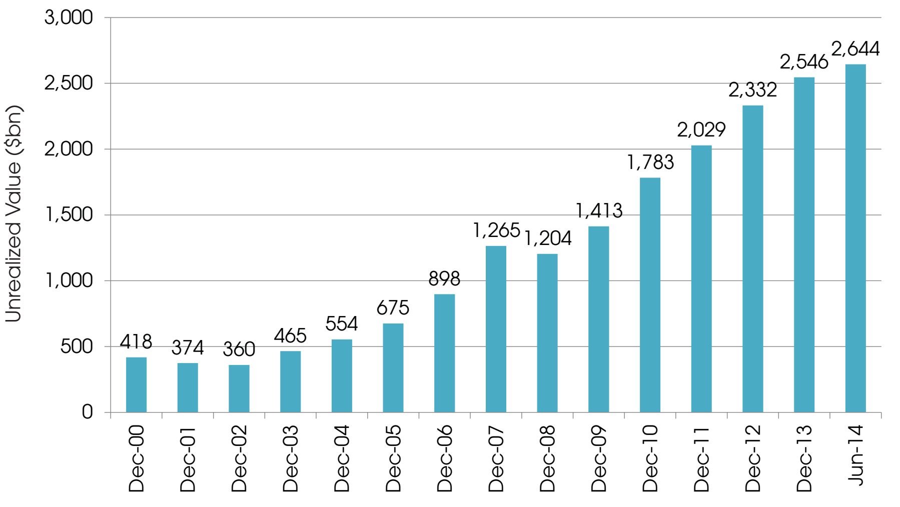
www.preqin.com/fim

Performance Overview

The private equity industry has seen a healthy recovery since the market turmoil of 2008 and 2009, becoming an integral part of institutional investors' portfolios. By choosing the best performing fund managers, investors can generate premium, long-term returns in order to boost the performance of their overall portfolio; therefore for fund managers, being able to stand out in the crowd and demonstrate a strong and consistent performance track record is imperative when raising capital for new vehicles.

The importance of gaining access to reliable, consistent and up-to-date performance data is clear for all private equity and venture capital professionals. Preqin provides net-to-LP performance data for over 7,200 private equity and venture capital funds raised by over 2,200 fund managers. By examining this data, investors, fund managers and service providers alike can gain a valuable insight into the industry. The following analysis highlights the recent trends in the industry and shows some of those insights available to Preqin's subscribers.

Fig. 6.1: All Private Equity: Unrealized Value, 2000 - 2014



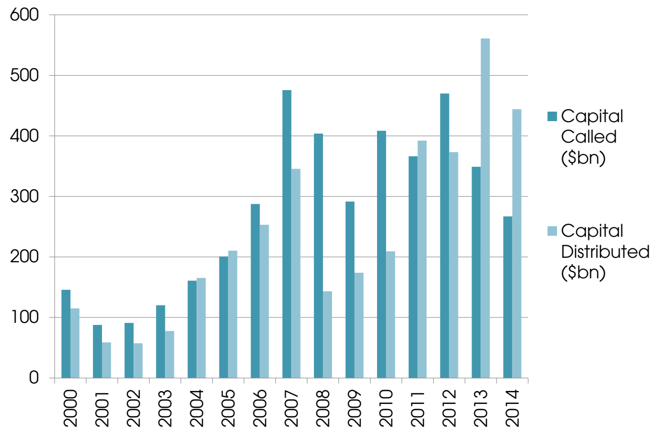
Source: Preqin Performance Analyst

Growth of the Asset Class and Strong Short-Term Performance

Notably, in the past few years, the private equity asset class has been steadily growing in size. Fig. 6.1 highlights the growth in terms of capital invested in the industry year-on-year. The data shows that during 2013, the total value of unrealized investments grew by 9.2% and by a further 3.9% during the first half of 2014, as favourable market conditions during this time saw rising valuations for portfolio companies lead to further increases in the value of assets owned by the industry, despite the continuing high rate of realizations. Favourable conditions and continued investment in the industry has produced sustained growth in the asset class, despite record distributions during 2013 (as shown in Fig. 6.2).

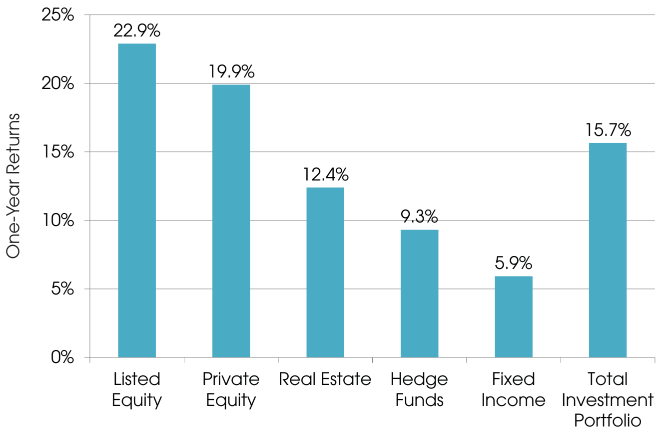
Recent market conditions combined with high levels of distributions over the last 18 months are driving short-term performance within the asset class. To highlight the performance of various asset classes in relation to an institutional investor's portfolio over fixed periods of time, Preqin reviews the financial statements of over 100 public pension funds. Fig. 6.3 shows the median one-year returns generated by public pension funds (for more in-depth analysis, see page 65). The analysis shows that private equity generated a one-year return of 19.9% to 30 June 2014, with only listed equity generating a greater return during this time period, indicating that investors are seeing the benefit of this favourable short-term performance within their private equity portfolios.

Fig. 6.2: All Private Equity: Annual Amount Called and Distributed, 2000 - 2014



Source: Preqin Performance Analyst

Fig. 6.3: Public Pension Funds: One-Year Returns by Asset Class (As at 30 June 2014)



Source: Preqin Performance Analyst

Performance Benchmarks

Fund Type: Buyout
Benchmark Type: Median
Geographic Focus: All Regions
As at: 30 June 2014

Vintage	No. of Funds	Median Fund			Multiple Quartiles (X)			IRR Quartiles (%)			IRR Max/Min (%)	
		Called (%)	Dist (%) DPI	Value (%) RVPI	Q1	Median	Q3	Q1	Median	Q3	Max	Min
2014	24	5.4	0.0	87.5	0.92	0.88	0.64	n/m	n/m	n/m	n/m	n/m
2013	51	20.5	0.0	94.6	1.06	0.98	0.86	n/m	n/m	n/m	n/m	n/m
2012	53	32.6	0.6	102.9	1.33	1.06	0.97	n/m	n/m	n/m	n/m	n/m
2011	51	53.0	2.8	100.0	1.24	1.13	0.96	16.7	11.0	4.7	55.0	-14.8
2010	45	68.2	17.7	104.7	1.54	1.34	1.10	22.9	15.1	8.1	40.8	-25.0
2009	32	84.9	41.2	95.1	1.65	1.40	1.21	25.1	16.6	10.5	72.4	-7.2
2008	76	87.8	47.4	93.0	1.72	1.48	1.29	19.6	11.7	8.6	50.2	-20.6
2007	91	93.7	57.6	82.2	1.65	1.46	1.29	16.3	11.7	7.8	43.0	-12.6
2006	91	94.0	76.0	73.8	1.83	1.53	1.24	14.2	9.7	5.1	39.9	-14.7
2005	88	96.3	100.7	41.6	1.89	1.53	1.27	16.2	11.3	6.8	87.0	-24.6
2004	35	97.6	159.0	32.0	2.33	1.89	1.65	28.0	18.5	10.6	65.8	-16.9
2003	37	100.0	157.1	14.1	2.34	1.88	1.44	31.8	19.8	9.6	56.0	-49.9
2002	32	99.1	167.0	13.3	2.25	1.90	1.44	33.6	20.2	11.1	72.0	-10.2
2001	33	95.7	205.7	0.7	2.81	2.10	1.54	39.4	28.5	11.7	64.4	-9.2
2000	78	97.3	192.9	0.4	2.51	2.09	1.64	27.2	20.8	11.6	46.0	-10.6
1999	50	97.5	155.7	0.0	2.02	1.56	0.99	17.9	12.5	4.9	35.7	-25.1
1998	58	98.5	157.3	0.0	2.00	1.60	1.13	18.0	9.3	0.4	58.2	-100.0
1997	50	100.0	158.3	0.0	2.15	1.59	1.08	17.0	10.5	2.2	84.0	-21.6
1996	32	98.1	173.5	0.0	2.18	1.74	0.94	22.5	10.7	-1.3	147.4	-19.6
1995	30	100.0	166.9	0.0	2.30	1.67	1.14	25.4	14.6	4.0	59.9	-19.9
1994	39	100.0	188.9	0.0	2.36	1.89	1.49	37.3	20.5	12.0	92.2	-22.6
1993	18	100.0	219.7	0.0	3.45	2.20	1.39	39.2	20.6	7.8	66.1	0.8
1992	21	100.0	200.0	0.0	3.22	2.00	1.36	38.1	21.2	10.7	60.6	-49.9
1991	9	100.0	267.2	0.0	2.99	2.67	2.07	29.8	25.0	21.4	54.7	-0.5
1990	20	100.0	238.0	0.0	3.30	2.38	1.56	31.1	19.5	8.9	72	2.6

Source: Preqin Performance Analyst

Fund Type: Buyout by Fund Size
Benchmark Type: Median
Geographic Focus: All Regions
As at: Most Up-to-Date*

Vintage	Mega Buyout				Large Buyout				Mid-Market Buyout				Small Buyout			
	Median Fund		Weighted Fund		Median Fund		Weighted Fund		Median Fund		Weighted Fund		Median Fund		Weighted Fund	
	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)	Multiple (X)	IRR (%)
2012	1.15	n/m	1.16	n/m	1.06	n/m	1.09	n/m	1.01	n/m	1.07	n/m	1.10	n/m	1.14	n/m
2011	1.13	10.3	1.16	12.7	1.24	14.4	1.30	16.2	1.13	8.4	1.08	8.2	1.00	2.3	1.22	5.5
2010	n/a	n/a	n/a	n/a	1.30	13.2	1.31	13.5	1.28	15.6	1.34	16.2	1.31	15.2	1.06	15.7
2009	n/a	n/a	n/a	n/a	1.43	15.6	1.36	14.0	1.33	13.2	1.38	13.7	1.38	14.3	1.80	22.0
2008	1.34	11.2	1.47	14.0	1.57	15.8	1.52	15.6	1.35	10.1	1.37	11.1	1.52	11.7	1.36	12.5
2007	1.41	8.8	1.38	8.9	1.53	11.5	1.47	10.6	1.45	11.8	1.49	12.1	1.50	13.2	1.11	14.6
2006	1.47	7.1	1.39	5.7	1.50	8.7	1.41	7.9	1.47	8.6	1.47	8.1	1.44	9.9	1.51	9.7
2005	1.98	13.2	1.91	12.6	1.43	7.1	1.44	10.3	1.47	9.3	1.55	11.4	1.55	11.5	2.28	26.0
2004	1.77	11.7	1.87	15.8	1.90	11.2	1.68	9.1	1.82	14.0	1.36	8.8	1.83	19.9	1.83	15.7
2003	1.90	20.8	2.04	21.9	2.09	19.5	2.13	20.7	1.57	14.1	2.08	17.0	1.76	20.8	1.77	15.0
2002	1.82	32.1	1.88	27.0	2.06	22.6	2.02	22.9	1.99	20.1	1.79	17.8	1.79	16.1	2.13	27.7
2001	2.39	29.0	2.50	32.7	1.93	23.8	2.05	22.5	2.08	24.6	2.21	26.4	2.17	28.0	1.78	16.6
2000	2.10	17.5	2.01	17.8	1.76	15.0	1.75	13.6	1.88	16.5	2.01	18.0	2.07	20.7	1.86	20.7
1999	1.72	11.6	1.64	9.0	1.56	9.8	1.42	6.0	1.94	10.1	1.90	12.2	1.70	15.6	1.22	4.6
1998	1.46	5.8	1.41	4.7	1.38	9.3	1.27	1.9	1.46	7.0	1.70	5.2	1.65	12.8	1.74	12.7
1997	1.78	11.6	1.53	5.8	1.73	10.6	1.77	18.5	1.12	2.2	1.15	2.7	1.67	11.8	1.44	8.6

Source: Preqin Performance Analyst

Definition Used for Mega, Large, Mid-Market, Small Buyout:	Small	Mid-Market	Large	Mega
Vintage 1992-1996	≤ $200mn	$201-500mn	> $501mn	-
Vintage 1997-2004	≤ $300mn	$301-750mn	$751mn-$2bn	> $2bn
Vintage 2005-2013	≤ $500mn	$501mn-$1.5bn	$1.6-4.5bn	> $4.5bn

**Data points in this benchmark range between 31 December 2012 and 30 September 2014.*

Investor Appetite for Private Equity in 2015

Investor appetite for private equity has proven to be robust and is evident in Preqin's positive survey results and fundraising data, as LPs continue to place substantial amounts of capital with private equity and venture capital fund managers. In 2014, 994 funds reached a final close, accumulating an aggregate $495bn.

At the end of 2014, Preqin spoke with over 100 LPs globally, of which 54% made new commitments to private equity and venture capital funds in 2014, in order to gain an insight into their current attitudes towards the asset class and their future investment plans. Our investor survey indicates that in the coming year, appetite will remain strong.

Investor Sentiment

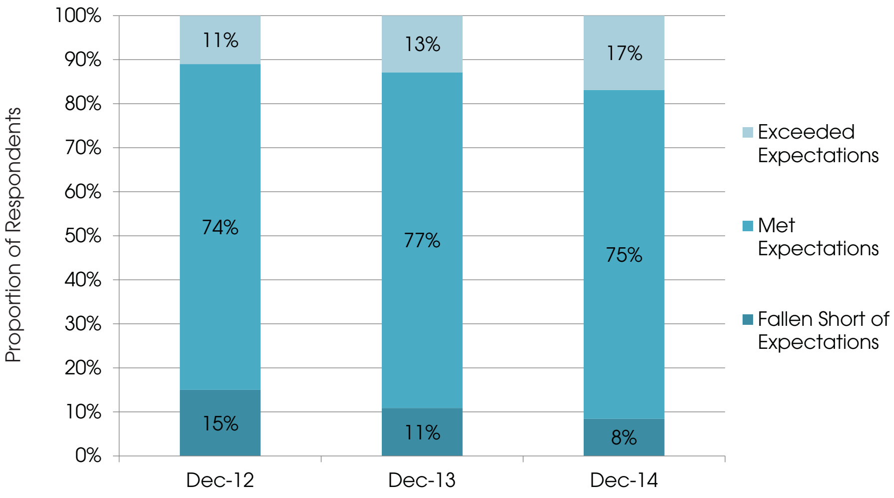
Over the past three years, the majority of investors have consistently had the expectations of their private equity fund investments met or exceeded, as shown in Fig. 7.11. In 2014, 75% of LPs we spoke to stated that their private equity portfolios had met expectations, and a further 17% felt their private equity investments had exceeded expectations, demonstrating continued positive sentiment towards the asset class. Further encouragement can be taken from the fact that the proportion of investors that have had their private equity investments surpass their expectations has increased each year from 2012.

Challenges Faced by LPs

A significant proportion of LPs (39%) stated that fees are their biggest cause for concern in operating an effective private equity program in 2015. This represents a substantial increase compared to the same survey carried out in December 2013, when 15% of investors identified fees as the biggest challenge. Management fees, which are typically set at 2% of committed capital, have been a contentious issue, with many LPs demanding a decrease, or for fees to be aligned with the performance of GPs. One respondent from a Europe-based private sector pension plan suggested that fund managers could do more to align their interests by increasing the level of GP commitment. Added to this is the fact that committed but uncalled capital is at a record high, and LPs are especially dissatisfied with paying management fees to the subset of GPs whose funds are now dormant and unlikely to invest further or raise new funds.

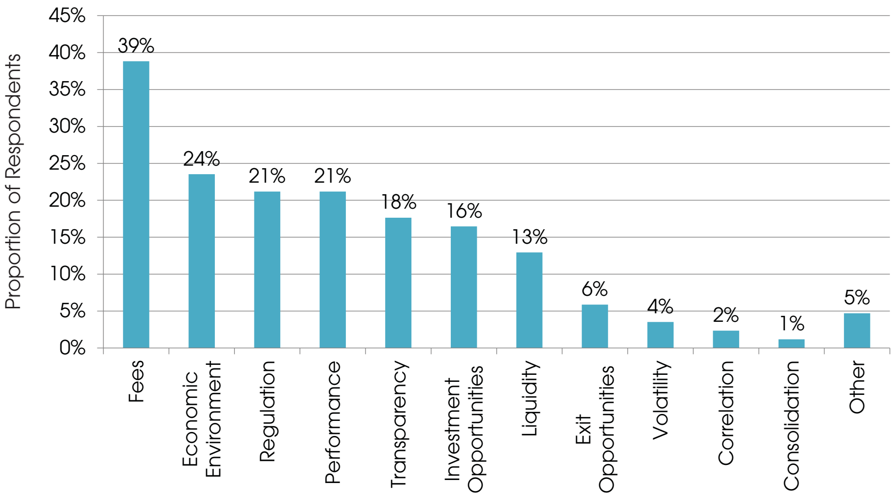
Regulatory action in response to the financial crisis has placed the private equity industry under greater scrutiny and remains a cause for concern for investors, with 21% of respondents quoting regulation as a challenge in the year ahead. However, Preqin's latest survey reveals that regulation has caused only 8% of LPs to amend their private equity allocations so far. This suggests that regulatory changes, while causing significant uncertainty among investors, have yet to have a widespread impact on LPs' allocations. One UK-based pension fund stated: "It [the AIFMD] will not affect our allocation but it does make it harder as now European fund managers cannot approach us, we have to approach

Fig. 7.11: Proportion of Investors that Feel Their Private Equity Fund Investments Have Lived up to Expectations, 2012 - 2014



Source: Preqin Investor Interviews, December 2014

Fig. 7.12: Biggest Challenges Facing Investors Seeking to Operate an Effective Private Equity Program in 2015



Source: Preqin Investor Interviews, December 2014

Improving the Portfolio Monitoring and Valuation Process

- Jorge Hansen, Managing Director, Baxon

In private equity, as in other asset classes, data management has become both a challenge and a tool that can help create and maintain a competitive advantage in the market.

The Challenge

In the current competitive environment, private equity firms are expected to demonstrate not only consistent superior returns, but also that they can deliver the demanding level of services required by investors. LPs' growing demand for transparency and data is putting pressure on GPs to generate reliable, granular and timely information related to their investment performance.

As a result, more and more fund managers are turning to technology solutions in order to meet the regulations and expectations of the investment community and maintain a competitive edge in the market.

The Tool: Reporting and Operational Efficiency

Automation is the ultimate form of efficiency. The generation of internal and external reporting of investment performance and portfolio company operating performance has typically been produced in spreadsheets, which are manually intensive, error prone and have limited functionality for analysis. Scaling this reporting granularity and quality can become very expensive and a slow and painful process without the right tools. In addition, in spite of ongoing initiatives such as ILPA or AltExchange, which intend to standardize reporting, not all investors are necessarily asking for the same data. It is therefore vital to adapt GPs' infrastructure to provide intelligent information to meet specific needs.

In order to meet this demand GPs need to:

1. Define clear processes for collecting data from their portfolio companies and deal teams;
2. Count on tools that allow them to further automate a traditionally manual intensive process; and
3. Adopt best practices to ensure data quality and consistency, including data traceability and audit trails, formal sign-off processes, etc.

The main focus is to streamline two processes in the post-acquisition lifecycle: portfolio company monitoring and portfolio company valuation.

Portfolio Monitoring

Improving the process of data collection and the management of portfolio companies' performance data is key to any fund manager regardless of the size of the firm. Investors are demanding more and more details about their holdings, so it is essential that private equity firms have an effective system for monitoring the key metrics of each investment over time, such as P&L, balance sheets, cash flows, and the operating KPIs of its portfolio companies.

Once information has been updated, a robust platform allows for workflow configurations to support sign off of changes and versions, in addition to detailed consistency checks. Once data has been collected, approved and automated, a reporting module allows generation of high quality and visually rich reports. Users can then access the resultant dynamic reports and dashboards from any device (not limited to Microsoft Excel) and share specific data with specific groups of users. Interactive dashboards and analytics tools combined with other existing reports mean that deal teams can access all data on the go, from any type of device.

This interaction allows investors to automatically answer many of their queries, reducing the need to get staff from their investor relations teams involved, thus reducing operating costs. This approach is an important step toward fulfilling LPs' goal of visualizing data from GPs in a form beyond the traditional PDF report.

Portfolio Company Valuation

The quarterly or semi-annual process of valuation is another example of an extremely manual process, relying on the use of spreadsheets, which are shared among different stakeholders (typically deal teams, finance teams and valuation committee members). The main benefits of rolling out specialized portfolio management software in the portfolio valuation process include ensuring a structured process, control of consistency across the portfolio, full traceability, audit trails and a log of changes. At the same time the software maintains the level of flexibility required to adapt to multiple methodologies, different levels of complexity of waterfalls, etc.

It is also important for portfolio company management systems to be able to cater to the specific needs of the different users within a private equity firm. Deal teams need a way to access updated data and embed it in their own spreadsheets, while finance and investor relations teams require a robust application to automate their monthly and quarterly reporting packs, as well as a way of easily querying data to respond to specific questions from investors or senior managers. Finally, partners and senior management want to be able to gain a high-level summarized view that can be easily accessed from their tablets or laptops, with the ability to interact with dashboards and graphs, and intuitively drill down if needed.

Investing in a robust and flexible portfolio company management solution is not only a way of further improving efficiency and automation, but also a way of improving internal capabilities to service internal users and investors, as well as demonstrating transparency, compliance and adoption of best practices.

Baxon Solutions

Baxon Portfolio Company Management System (PCMS) is a 100% cloud solution to streamline the collection of financial and monitoring information directly from portfolio companies, and automate the portfolio monitoring analysis, reporting and valuation processes. The Baxon platform concentrates the reporting information for more than 1,000 companies worldwide with clients exceeding $180bn in assets under management.

Founded in 2005, Baxon is based in London and has a global client base of leading private equity and venture capital firms. Preqin Ltd. is a strategic partner and significant minority investor in Baxon.

www.baxonsolutions.com

Venture Capital Deal Flow by Industry, Stage and Size

Number and Aggregate Value of Venture Capital Deals by Stage

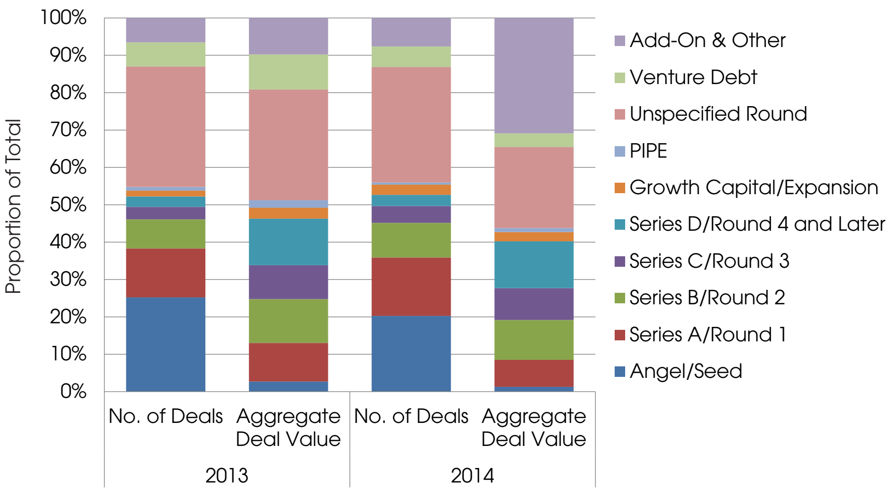
Fig. 11.5 shows the breakdowns of the number and aggregate value of venture capital deals that occurred in 2013 and in 2014 by stage. Early stage investments, with financings classed as Series A and earlier, accounted for 36% of the number of deals in 2014 and therefore continue to dominate the venture capital market, although their market share decreased by two percentage points between 2013 and 2014. In terms of aggregate value, early stage investments saw their market share decline by five percentage points, but saw a 26% increase in absolute terms from $8.8bn to $11.1bn.

Angel/seed financings remain the most prominent stage of investment, with 1,743 such deals taking place during 2014, comprising a fifth of the total number of investments for the year. The prominence of early stage investments relates to the appetite of investors for 'home run deals,' whereby a relatively small investment has the potential to generate stellar returns. However, angel/seed financings saw a five percentage point decline on the market share it comprised in 2013. At $1.7bn, the aggregate value of angel/seed deals is 6% lower than in 2013.

In contrast, the aggregate value of Series A investments rose from $7.0bn raised via 1,262 financings in 2013 to $9.5bn invested through 1,344 deals in 2014. The largest first round investment was the CNY 2bn (approx. $324mn) funding received by Meizu Telecom Equipment Co., Ltd., a Chinese smartphone manufacturer, from undisclosed investors.

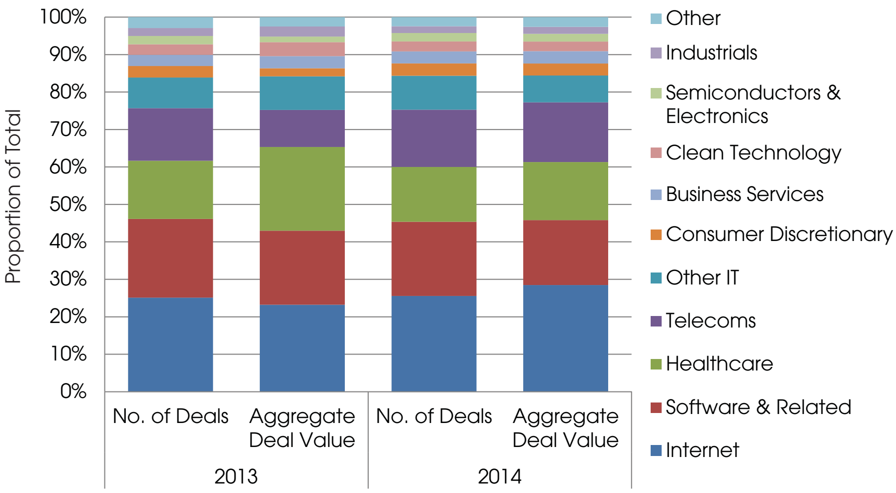
Series B financings made up 9% of venture capital-backed deals in 2014 and accounted for 11% of the aggregate deal value. Although the latter is one percentage point lower than the proportion this stage accounted for in 2013, Series B actually saw a 77% rise in absolute aggregate deal value from $7.9bn in 2013 to $14.0bn in 2014, due to a number of large second rounds. The largest Series B financing was received by California-based Magic Leap, Inc.; the company raised $542mn in a round which was led by Google and included Andreessen Horowitz, KKR, Legendary Entertainment, Kleiner Perkins Caufield & Byers, Obvious Ventures, Vulcan Capital and Qualcomm Ventures.

Fig. 11.5: Proportion of Number and Aggregate Value of Venture Capital Deals by Stage, 2013 - 2014



Source: Preqin Venture Deals Analyst

Fig. 11.6: Proportion of Number and Aggregate Value of Venture Capital Deals by Industry, 2013 - 2014*



**Figures exclude add-ons, grants, mergers, secondary stock purchases and venture debt.*

Source: Preqin Venture Deals Analyst

2014 saw prominent venture capital-backed portfolio companies themselves increasing their investment activities, resulting in add-ons accounting for nearly a third of this year's aggregate deal value, up from 10% in 2013. The largest venture capital-backed add-on deal of 2014 was the acquisition of WhatsApp by Facebook for $19.65bn.

Venture Capital Deals by Industry

Venture capital investment activity in 2014 was once again led by the internet sector in terms of both the number of deals and the aggregate capital invested. The proportion of the number of deals the sector accounted for increased slightly between 2013 and 2014 from 25% to 26% respectively, with the proportion of the aggregate value of deals increasing from 23% to 29% (Fig. 11.6). Under the influence of blockbuster funding rounds, such as the $1bn investment in Flipkart in July 2014, the average deal size in the internet sector in 2014 was twice that in 2013, rising from $8mn to $16mn.

The software sector remained the second most prominent industry in 2014

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