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## Are Club Deals Making A Comeback?

The club deal, that bastion of the buyout boom, has returned as a way for buyout shops to write bigger equity checks on deals.

**Advent International**, **Berkshire Partners** and **Bain Capital** last month agreed to buy SkillSoft, an Irish software-as-a-service provider, for \$1.1 billion. In November, **Silver Lake Partners**, **CPP Investment Board** and venture capital firm **Andreessen Horowitz** bought Internet telephone company Skype for \$2.75 billion.

Club deals gained favor in the middle part of this decade as a way for buyout shops to spread risk on huge deals, such as the \$11.3 billion buyout of SunGard Data Systems in 2005 by Bain Capital, **GS Capital Partners**, **Kohlberg Kravis Roberts & Co.**, **Providence Equity Partners** and **TPG**. The practice began to peter out in late 2006 when the U.S. Department of Justice's anti-trust division began investigating whether some firms were colluding to drive down price. A DOJ spokesperson declined to comment on the status of that investigation. The credit crisis, which developed soon after the DOJ took notice of club deals, pretty much eliminated the possibility of large deals in general.

Today's club deals are different from those of the buyout boom, when banks tripped over themselves to grease ever-larger LBOs with easy credit, and cocksure buyout shops were willing to load their companies up with debt. Today, club deals present a way for firms to collect enough cash to sign deals in the \$2 billion to \$5 billion range that require a substantial equity check. The Skype deal, for example, is being funded with \$1.9 billion in cash. Silver Lake co-founder **Jim Davidson** said at Buyouts West conference in November that the deal is the single largest investment in the firm's history. Club deals can also ease limited partner liquidity concerns.

"Given that liquidity events over the past 24 months have been relatively constrained with the IPO market returning only recently, LPs are encouraging GPs to be more measured in the speed in which they deploy their funds," **John Miller**, the global head of financial sponsors for Barclays Capital, which helped advise the investors in the SkillSoft and Skype deals, told *Buyouts*.

Where the latest club-deal trend will go remains subject to debate. A senior financial sponsor executive at a major Wall Street bank told *Buyouts* he expects to see deals north of \$10 billion as banks continue to stabilize. Such deals would almost certainly require clubbing. "My personal opinion is we'll see bigger deals sooner than most people think," he said.

Barclays Capital's Miller and others interviewed are skeptical, however, that club deals will take off like they did five years ago. Buyout firms have plenty of capital to put to work, and rebounding credit markets could make it easier for them to go it alone. "I would expect to see most deals done on a non-club basis, so long as deals are staying in the couple billion, \$3 billion deal range, and there's reasonably robust lending," said an attorney who has worked on several club deals and is currently advising a \$5 billion company evaluating deal opportunities that would most likely require multiple sponsors.

With club deals there is also the unwelcome challenge of making sure each buyout firm is on the same page when it comes to strategy, which is difficult to bake into deal documents because of the unforeseen difficulties an investment can encounter, said **Brian Gallagher**, managing partner of **Twin Bridge Capital Partners**, a Chicago based firm that makes direct and fund-of-funds investments. "Going into a club deal in some ways is like going into a marriage," Gallagher said. "A firm may think that it has the right partner and it sees things the same way, but when actual, specific issues come up, many of which could not be foreseen, it turns out that the equity partners don't agree."

By Bernard Vaughan