# Buyouts

# COVID-19 COMPENDIUM

A compilation of stories and insights from the **Buyouts** publication during the early spring coronavirus pandemic

PEI

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# Editors letter

During this time may you and your loved ones stay safe and healthy. The covid-19 pandemic has created so much upheaval in only a few months that one investor remarked to PEI Media: "A day feels like a week and a week feels like a month." And unlike previous crises, coronavirus has upended everyone's lives, leaving no one unaffected. The outbreak has induced widespread panic because of many unknowns, not the least of which is when covid-19 will cease to be a global threat. Such extreme uncertainty has pushed the world's economy to the brink of recession, with stock markets in chaos and all industries grappling with how to do business in this strange new environment.

Over the next several pages you'll find insight on some of the most pressing issues for private markets arising from the pandemic. From our ongoing conversations with the sector, Buyouts has gathered insights and anecdotes on the virus's early impacts that we will share.  Expect comprehensive coverage in the months to come as the industry adjusts to operating in a new normal.

Regards,
**The PEI staff**

# KKR pledges $50m fund for pandemic relief efforts

KKR's four leaders, co-CEOs Henry Kravis, George Roberts and co-presidents Scott Nuttall and Joseph Bae, will forego salary and bonuses for 2020 as part of the firm's pandemic relief efforts.

By Chris Witkowsky

KKR is contributing to relief efforts to help communities impacted by the coronavirus-fueled economic downturn by establishing a $50 million relief fund, according to a letter the firm sent to its limited partners Tuesday.

As well, KKR's four leaders, co-CEOs Henry Kravis, George Roberts and co-presidents Scott Nuttall and Joseph Bae, will forego salary and bonuses for 2020, the letter said.

> "Our goal is not just to provide financial support, but to engage the extraordinary talents of our people to make a meaningful impact for millions around the world," the letter said.

The firm is the latest to kick in and help out as the pandemic rages through the country. Other firms who have contributed to coronavirus relief include Advent International, Leonard Green & Partners, Thoma Bravo and Blackstone Group.

KKR and its senior executives established the relief fund to support employees and communities impacted by the pandemic, the LP letter said. It will be funded by individual executives as well as direct support from the firm, the letter said.

For communities, the fund will be used to support immediate needs of first responders and frontline medical workers; ensure food security and support other relief programs for the most vulnerable in communities; assist small businesses in communities experiencing significant economic hardship; and partner with nonprofits and global relief efforts.

The fund will be used to assist portfolio companies by providing access to benefits and financial coaching for dislocated employees. As well, it will support workforce recovery for challenged populations, the letter said.


Advent earlier this week announced a $25 million relief fund pledged by senior team members. Leonard Green last month announced a $10 million employee-assistance fund for employees of Leonard Green portfolio companies adversely impacted by the pandemic.

Thoma Bravo also last month announced a $2 million contribution to a non-profit focused on supporting students and families of San Francisco Unified School District. And earlier this week, Blackstone Group pledged $15 million to coronavirus relief efforts in New York. Blackstone's contribution will be split, with $10 million going to New York's first responders, as well as to support food, transportation and housing assistance for healthcare workers on the frontlines.

As well, $5 million from the firm will go to organizations that provide security and resources for New Yorkers in need. The firm in recent weeks also has donated supplies like hand sanitizer, disinfectant wipes, tissues and other things to Ronald McDonald House New York, God's Love We Deliver and others that serve populations in New York, the firm said in a statement.

# HCDPQ launches C$4bn pool to support Québec companies during coronavirus crisis

Canada's second-largest pension will assist companies that were profitable before the crisis and will provide assistance in designing financial instruments to get through the crisis.

By Justin Mitchell

Caisse de dépôt et placement du Québec announced a C$4 billion pool ($2.85 billion; €2.6 billion) aimed at supporting companies in Québec with strong long-term outlooks facing short-term liquidity issues, the pension announced.

Companies receiving financial support must meet several criteria. These include "having been profitable before the covid-19 crisis, having a promising growth outlook in their sector and seeking financing of over C$5 million ($3.6 million)," CDPQ said in a press release. "Eligible companies will be able to use these investments to weather this turbulent period until the economy recovers and support and advance their recovery plans once the crisis is over."

CDPQ will also provide support to the companies as they move through the crisis. "These solutions could include various financial instruments based on companies' needs in the current conditions," the pension said. The pension is already doing this with its own portfolio companies.

A CDPQ spokesperson did not respond to a question as to whether CDPQ's support would take the form of equity stakes, private debt or other structures. Direct investments have become a big part of CDPQ's private equity program, as Buyouts reported. Direct investment now represents more than three-quarters of all activity. In 2019, it deployed C$10.5 billion ($7.5 billion) into the market.

> "It's essential for CDPQ to join the collective effort during the covid-19 crisis," said President and Chief Executive Officer Charles Émond in a statement. "This initiative is a good example of our two-fold mission to meet the needs of our depositors and support Québec's companies and economy."

CDPQ is Canada's second-largest pension. As of December 31, 2019, its net assets totaled C$340.1 billion ($243 billion), according to its website. As of February 20, its private equity assets were valued at C$50 billion ($35.7 billion) and had a 10.5 percent return in 2019 and 12.5 percent over five years.

Émond recently took over the pension's top job from Michael Sabia, as Buyouts reported. Before that, he ran CDPQ's private equity program.


No US-based pension has announced a similar program yet, but family offices with ample capital are considering taking equity stakes in companies, as Buyouts reported. California State Teachers' Retirement System's CIO also told Buyouts the system would be looking to make co-investments based on opportunities in the market.

# 'Weapon' of private equity dry powder will benefit economy in pandemic downturn: Hamilton Lane's

Erik Hirsch Canada's second-largest pension will assist companies that were profitable before the crisis and will provide assistance in designing financial instruments to get through the crisis.

By Chris Witkowsky

Buyouts sat down with Hamilton Lane's Erik Hirsch, vice chairman and head of strategic initiatives, to talk about the impact of the coronavirus-fueled downturn. Hirsch sees the PE industry following three phases back to normalcy, doesn't expect a wave of PE-backed bankruptcies and believes PE dry powder could benefit the global economy.

Erik Hirsch

**How would you describe the environment right now?**

Time it's a question of what the investment activity looks like, and I think about it in three phases: we're in phase one right now, which is, there certainly is corporate debt and distressed debt opportunities to buy today; that market has dislocated very quickly. You are beginning to see folks buying and that process is going to continue for quite some time.

Also in phase one, you are starting to see some activity around managers needing to put equity infusions into businesses that are already very troubled.

Phase two is more around structured equity infusions, think about these similar to what Warren Buffett was doing on a very big scale circa 2008, coming in with preferred equity, giving that to the bank, and getting equity returns with a lot of structure and downside protection. I think you're going to certainly see private equity called upon to do a lot of that. We're not there yet, but that process is what I'm thinking of as phase two.

Phase three is traditional buyout, and I think this phase is a ways away. I don't think there are a lot of buyout deals to be done today, for a few reasons: one, getting financing put in place is not really feasible. What are you lending against? You don't know what the revenue/EBITDA impact is so getting lenders to step up to go finance a brand new buyout deal is not really happening. Two, what are you paying for that business? The markets are still gyrating around so much that coming to a price and figuring out the comparable set I don't think is practical today either.

The third piece is you need both buyer and seller to start to mentally agree as to where we are in the market. If you're an owner of a business, a month ago that business likely was operating at record high levels and today, a month later, it's not. That's going to take some time for you to calibrate – is your business worth what it was worth a month ago because you believe it's going to rocket right back, or is your business worth a fraction of what it was worth a month ago because we're in this for the long haul?

**What kind of funds are going to get raised in this environment?**

I think what you're going to see is people raising opportunistic credit-oriented types of funds to deal with what is happening in phase one, and then people beginning to raise vehicles around phase two for sort of rescue financing, DIP financing, structured equity – and playing that opportunity set.

Until we see that phase three is coming online and the world is in a much more normalized spot, I think traditional fundraising, basic buyout funds and the like, is going to be a little ways off. That's not to say people won't try and that's not to say some LPs won't sign up.

A word of caution for GPs: Be mindful of the gross/net spread. If I was a GP today I would be focused on how to do right by my customer base to make sure I don't create a really unattractive gross/net spread.

GPs can get creative. Maybe that means moving into fees on invested capital, but with some ability to make up some of that on the back end of the fund. We're in an unprecedented environment and managers need to put on their thinking caps and not operate as if it's business as usual.

**What are GPs going to do with their uncalled capital?**
Eery GP is going to have a tough choice to make. You would rather have more dry powder than less and if you go back and look at data, when the last downturn occurred, the 2008 vintage funds did fine. Where you saw the worst performance was in the 2006 vintage funds. You had folks that had basically fully invested that 2006 vintage fund, and were probably getting ready to raise in 2008, but ended up without the proper capital to spend. Maybe they had reserved the typical 10 percent of dry powder, but that didn't leave them with enough ammunition to deal with the challenges they were having in their portfolio.

So to me, GPs all have this tricky choice to make: are you better off spending that dry powder to help one of your existing businesses, or are you better off trying to invest that in a brand new opportunity? Those choices will be made on a case-by-case basis, and some will have an easier decision to make because they have a lot more dry powder.

**Are you expecting a flood of PE-backed bankruptcies?**
There's a couple pieces here. One benefit is that dry powder. Our calculation is that there is about $2 trillion of dry powder across all strategies and sub-asset classes, essentially equal to the first stimulus package. That money is an enormous weapon that's poised to benefit the entire global economy. Once that gets unleashed, it will be doing things like keeping existing businesses around and allowing them to survive so they can eventually thrive, or going to businesses that, if private equity capital didn't come around, they wouldn't survive either.

The other benefit is on the lending side. Bankruptcies are caused by the lender forcing you into a process, and I don't expect to see a lot of that – financing packages have generally been very flexible – covenant lite, covenant free, not a lot to trip.

Also, the lenders, I would posit, are not anxious to take the keys to these businesses. What we're hearing is they'll be willing to work with companies and fund managers to provide every flexibility they can to let them come out the other side. The person best suited for the business is the fund manager. Lenders will be calling fund managers and saying, "I get it, we're in the middle of a war, what can I do to help you?"

Does that mean everyone makes it? Clearly not, and there will be some bankruptcies despite everyone's best efforts. But I don't think you'll see a tidal wave of that.

**What are LPs worried about?**
The first thing they're focused on is what they own. Those that have the technology tool to know what they own; those that don't are having to make a lot of phone calls to go try to track all that stuff down.

The second thing LPs are focused on is the health of the portfolio. People are all having to make assumptions, so the good GPs are coming back with very granular analysis saying "Here's my assumption, I think revenue is staying at zero in this restaurant business until the end of June. Based on that, here are my cash needs, here's my cash burn, here's the financing we have in place …" So, people are looking at capital structures and capital availability, and GPs are starting to go through today and make plans.

The sad reality of this is that there are some businesses that some GPs are going to be faced with the choice of, do they want to continue to support it, is it viable? And for some the answer will be no. It would just be good money after bad. GPs are starting to communicate some of those choices, or saying "Look, if this goes on for another X-number of months then I think we've reached the tipping point. But here's the business that we think actually could benefit from this and so we are putting additional capital there." Those are the tough choices that are having to be made now.

**Are you worried about LP defaults?**
No. While this downturn is different from '08, at least to date, the magnitude of the market drop is not different, and in fact is not even quite as steep in some cases. This is where we can go back and look at 2008 as a barometer because the drop there was quite significant and denominators shrunk and so what did people do? The answer is, we just didn't see a bunch of defaults. Will we see examples? Sure. But that's not going to be the overwhelming LP behavior.

Defaulting is an expensive thing to do and there are a lot of mechanisms the fund documents allow for to kind of cure that default so it's a pretty punitive result for the LP that does that.

I've also been asked the question, "Do you expect GPs to call in a bunch of money just so they have the capital?" That's career suicide. You know people are trying to manage cash very carefully and so for you as a GP to unnecessarily call in a bunch of money so you can sit on it is going to all but guarantee that you piss off your client base.

Secondarily, as soon as a GP calls that capital the IRR clock is ticking. So for a GP to sit on it and earn no return is going to completely erode the performance.

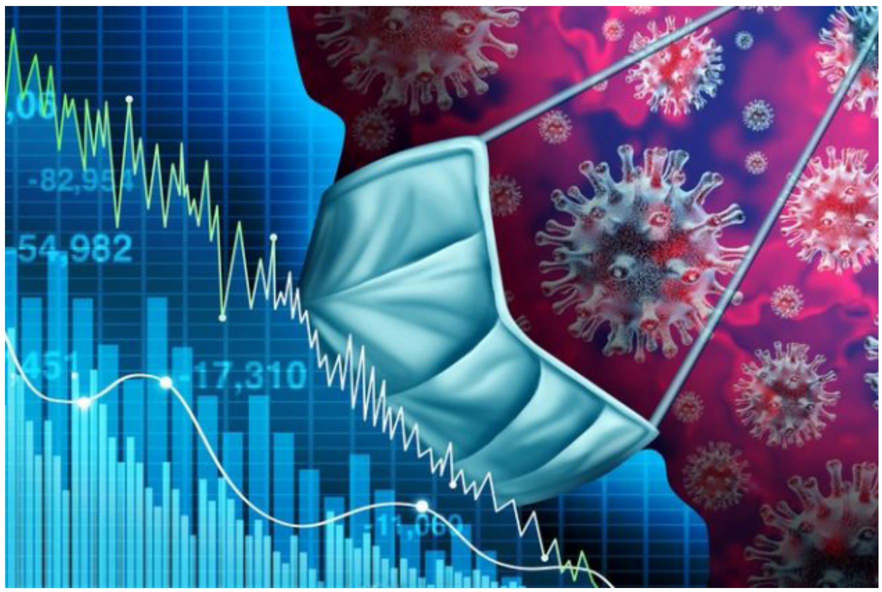
**Any final thoughts as we look ahead?**
From the LP side, the question is really what the opportunity-set ultimately looks like. People agree there will be opportunity – but the exact shape of that opportunity-se, and when and how you'll be best positioned to take advantage of it – that's what the industry is trying to figure out. And, of course, all of this comes back to the length and depth of this crisis.

# Catalyst Capital sees spike in distressed, rescue deals with prolonged covid-19 downturn

Gabriel de Alba, Catalyst's managing director and partner, sees the disruptive impact of the covid-19 outbreak as potentially lasting throughout 2020 and into 2021.

By Kirk Falconer

Turnaround investor Catalyst Capital Group is expecting a coronavirus-driven slowdown to be of long duration, spurring an uptick in demand for distressed private equity and rescue strategies.




> "We anticipate an extended downturn due to the health crisis, not a V-shaped recovery, Gabriel de Alba, Catalyst's managing director and partner, told Buyouts. "The historical reduction in demand and resulting economic and financial dislocation is creating shockwaves across a multitude of private and public companies."

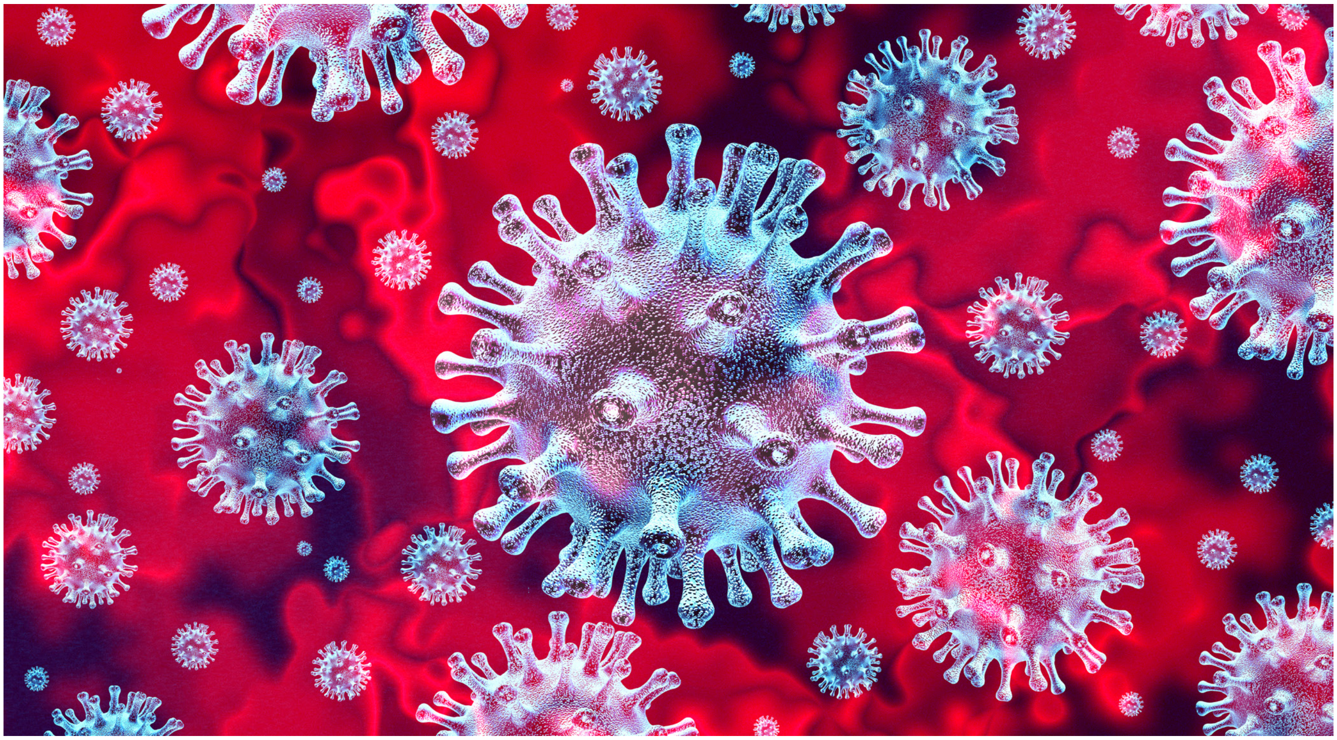
De Alba sees the disruptive effects of the global covid-19 outbreak as potentially lasting throughout 2020 and into 2021. In the event, there will be "fundamental changes" in the market, he said, including a requirement "to de-lever."

Catalyst's top priorities at present, de Alba said, include ensuring its team and employees of portfolio companies are safe and healthy. In addition, Catalyst is helping its businesses prepare for an increasingly tough economic environment, in part by reviewing cash flows, forecasts and obligations.

One portfolio company, Therapure Biopharma, a maker of complex biotherapeutics, is being provided with financial, operational and safety resources, de Alba said, to allow it to "continue to produce at full speed."

> Inbound opportunities Catalyst is also being "overwhelmed" by inbound requests for rescue financing, de Alba said.

Many of the inquiries are coming from intermediaries on behalf of small and mid-sized businesses needing operational liquidity to address fast-emerging points of stress, such as covenant breaches, stalled acquisition plans and supply stoppages. Businesses are also reaching out directly to Catalyst.



Toronto-based Catalyst is also hearing from Canadian provincial governments, de Alba said, who are looking for a partner to expedite the transfer of liquidity-focused programs to local companies.

In addition, Catalyst is fielding public-market opportunities from the holders of bonds and loans of listed businesses with liquidity challenges. As the volatility increases and debt becomes downgraded, de Alba said, collateralized-loan-obligation and other passive debt vehicles will be impacted and forced to sell.

$1 billion-plus to invest

Catalyst, which makes control and influence investments in distressed and under-valued situations by acquiring senior secured debt, closed its fifth fund in 2015 at $1.5 billion. Because of the long-running bull market and high valuations, it has been selective about doing deals, de Alba said, preserving its capital.

Catalyst as a result has $1 billion-plus in dry powder to invest in "historical opportunities" in a downturn, de Alba said. Along with rescue financings, these opportunities will include operational turnarounds of leveraged companies, which have been a Catalyst staple since its launch in 2002.

Canada's economy is especially vulnerable in a prolonged slowdown, de Alba said, because of its exposure to volatile commodity prices. Catalyst has a key position in the home market, he said, as regulatory and structural factors impede foreign distressed PE investors from acquiring significant stakes in businesses in major industries.

De Alba does not expect to see demand for distressed PE and rescue strategies coming only from sectors immediately impacted by the coronavirus outbreak. Instead, because of the pandemic's far-reaching effects, he expects deal flow to be "across the board."

Catalyst has been active on the deal front in recent months. In January, Gateway Casinos & Entertainment, a gaming and entertainment business owned by Catalyst since 2010, agreed to merge with Leisure Acquisition Corp. The $1.1 billion deal will include an investment by HG Vora Capital Management.

Catalyst also exited is minority investment in Hudson's Bay Co, the owner of Saks Fifth Avenue, with the March close of the retailer's $1.5 billion privatization. The firm played a central role in prompting a higher bid from the buyout group, led by Hudson's Bay chairman Richard Baker and joined by investors like Rhône Group.

Catalyst was founded by de Alba and managing partner Newton Glassman, a former executive with Cerberus Capital Management. Other senior team members include managing director and COO Rocco DiPucchio and managing director James Riley.

# Leon Black and wife unveil program to help NYC healthcare workers

Apollo and the Harris Family foundation also bought 200,000 KN95 respirator masks to be delivered to hospitals in NYC

By Teddy Grant

Apollo Global Management and its top executives contributed to a philanthropic program launched by co-founder Leon Black and his wife, Debra Black, to help aid in the fight against the novel coronavirus.

"These unprecedented times brought on by the covid-19 pandemic require extraordinary action, and Apollo, including its portfolio companies, is stepping up to meet the challenge," Apollo said in a statement.

The Black family is donating $20 million to NYC Healthcare Heroes, which provides support to the 100,000 New York City healthcare professionals who are helping fight covid-19. The program will provide up to 500,000 food, household cleaning and personal care products, as well as over-the-counter medicine to staff at hospitals across New York City through June. Apollo and its portfolio companies pledged more than $50 million in global relief efforts. The firm did not respond to Buyouts' request for comment on a specific amount.

The Black family launched NYC Healthcare Heroes with Aramark, the largest US-based provider of food, facilities and uniforms, and the Mayor's Fund to Advance New York City, Robin Hood and the American Red Cross.

As part of the donation, the Black family will donate $10 million and then match additional donations up to $10 million, according to a press release sent to Buyouts.

"The selfless medical professionals and hospital staff combating this public health crisis, especially those working tirelessly at the epicenter of the outbreak in New York City, need our support now more than ever," Debra and Leon Black said in a press release.

Additionally, Apollo Global Management, with co-founder Josh Harris' charity The Harris Family Charitable Foundation, bought 200,000 KN95 respirator masks to be delivered to hospitals across NYC.

Private equity firms have stepped up amid the chaos of the coronavirus pandemic. Leonard Green & Partners committed $10 million to an employee assistance fund to help workers at its portfolio companies who were impacted by covid-19; KKR created a $50 million relief fund for communities impacted by the virus; and Blackstone's charitable foundation committed $1 million to support healthcare services in China.

Partners Group's senior executives redirected their salaries to a fund that supported their portfolio company employees. BlackRock pledged $50 million to those impacted by covid-19, with $18 million going to food banks and community organizations in the US and Europe, according to sister site Private Equity International.

# CalSTRS has the cash to pounce on opportunities in coronavirus-fueled dislocation: CIO

Chris Ailman also said the pension fund would be more interested in "collaborative structures" than traditional partnerships.

By Justin Mitchell

Christopher Ailman. California State Teachers' Retirement System's private equity pacing this year will be driven by "opportunity set and pricing," Chief Investment Officer Christopher Ailman told Buyouts in an email Thursday, with no major changes due to the ongoing coronavirus pandemic rocking global markets.

"We will stick with our current plan, despite the total fund shrinking from the equity market decline," Ailman wrote.
The pension recently adopted a long-term plan to significantly up its private equity allocation, as Buyouts reported. However, that plan has no clear timeline, but will instead develop as opportunities warrant.

"CalSTRS has learned from experience that setting a rigid timeline is inefficient as investment opportunities ebb and flow and do not follow a calendar time frame," staff said in a document presented to its board in January. "If investment opportunities present themselves then staff will move quicker…if a steady allocation is more prudent, such as the allocation to private equity, where time diversification is critical, then an opportunity-based approach is more appropriate."

Ailman said CalSTRS will be vigilant about opportunities going forward.
"In the past, we have found that after a crisis the opportunities are generally more attractive," Ailman wrote. "We have held cash to be able to take advantage of these types of opportunities."

Ailman told Buyouts the pension has created a "common team" among all its private asset classes to present opportunities, which it also did in 2009. Earlier this week, Ailman told Bloomberg TV that the oil and gas and restaurant and hospitality sectors were some of the hardest hit, but in his email to Buyouts he stipulated that anything and everything was on the table.

> "Liquidity is important and we will make all opportunities compete for that capital," Ailman wrote. "We will look at all opportunities equally."

Ailman also told Bloomberg CalSTRS is considering shifting some of its allocations to opportunistic credit and distressed debt amid the coronavirus crisis.

"In 2008, it was a financial crisis due to over-leveraging and borrowing. This is a health crisis," he told Buyouts. "This time, the global economy has completely stopped, but is also prepared with a huge amount of stimulus to restart."

Ailman also told Buyouts that CalSTRS wants to "balance" distressed debt with equity ownership investments.

"We will be less interested in traditional partnership structures and more interested in collaborative structures," he wrote. CalSTRS significantly hiked its co-investment activity in the second half of

Christopher Ailman

2019, as Buyouts reported. Its goal is to eventually double it, as Buyouts reported. Not many capital calls Ailman said on Bloomberg TV that while "cash is king" right now in private equity, the pension system has not been flooded with capital calls.

"They've mostly drawn on—and told their portfolio companies to draw on—their lines of credit [and] we think that is a smart thing to do to maintain liquidity," Ailman said. Ailman also said he felt it would be a couple months before the losses in the public markets will be felt in private portfolios.

"We will see some declines, but those won't really show up in portfolios until probably out in June, just because of the lag that private equity has in its valuation process," he said.

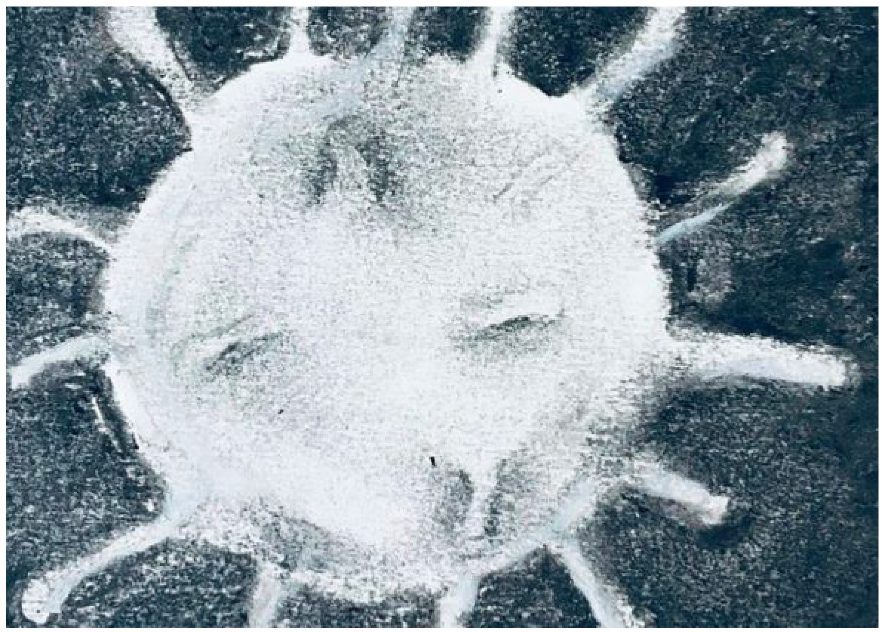
As of February 29, before most of the drop in public markets, CalSTRS's full fund was valued at just over $243 billion, according to its website.

# Most fundraising GPs plan to ask LPs for more time to hit final close: survey

The general expectation is that strong GPs who were already raising should be able to hit targets, but funds just coming to market, especially from newer firms, could have problems.

By Chris Witkowsky

A majority of private equity firms with funds in the market plan on asking limited partners to extend the amount of time they have before they have to end fundraising, according to fresh research from Private Equity International. The research supports what many sources have said in recent weeks about the impact of the coronavirus pandemic on private equity fundraising. The general expectation is that strong GPs who were already raising should be able to hit targets, but funds just coming to market, especially from newer firms, could have problems.



The survey, held from March 25 to March 27, found that 43 percent of 74 GP respondents would extend the fundraising period, while 38 percent of respondents said they would keep the same fundraising timetable.

In the extreme, 15 percent of the 74 respondents said they would pause fundraising indefinitely and 4 percent said they would abandon fundraising, the survey found.

Generally, a GP has 12 months from a new fund's first close to reach final close. They have to seek LP approval for more time to fundraise. LPs prefer GPs to stay on schedule for final close so they don't spend too much time on the fundraising trail and focus on dealmaking.

Of those GPs who plan to extend fundraising, 48 percent of 75 respondents said they would extend for more than three months, 29 percent plan to extend for less than three months and 21 percent said they expected no delay to final close, the survey found. (An unfortunate 1 percent expect to never hold a final close, the survey said.)

For those GPs expecting to launch a new fund, 34 percent of 95 respondents expect a delay of a few months, while 20 percent believe they'll see more than a few months delay, the survey said.

The downturn is expected to split the market into the "haves" and "have-nots" – GPs able to raise capital and those who won't be able to attract LP interest. In periods of dislocation, LPs tend to stick with their trusted managers that have performed well for them over various economic cycles.

This usually means brand name PE firms will continue to be able to raise capital, while less well-known firms will drop off the radar.

This will be a different world for private equity firms, which have enjoyed the strongest fundraising environment ever. US private equity and mezzanine funds raised $310 billion last year, according to PEI data.

# PODCAST: Pulled deals, chaotic fundraisings, skittish LPs – the corona effect

Across the private equity industry, the impacts of the pandemic-spurred economic downturn are being felt in dealmaking, which has slowed or paused fundraising processes while LPs work to understand the status of their portfolios.

By Chris Witkowsky

Across the private equity industry, the impacts of the pandemic-spurred economic downturn are being felt in dealmaking, which has seized, and fundraising, which has slowed or paused while LPs work to understand the status of their portfolios.

Listen to our podcast on the impact of the coronavirus **here.**