EXCERPTS OF RECENT MEDIA COVERAGE

PRIVATE EQUITY PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q1 2014

▶BLOOMBERG HEALTHCARE FINANCE BRIEF

PRIVATE EQUITY GPS CONTINUE TO SEE OPPORTUNITIES IN HEALTH CARE AND BIOTECH

By Lee Duran

Private equity fund managers see opportunities in health care and biotech in the coming year, a BDO analysis finds. ***Lee Duran, a partner and private equity practice leader at BDO****, writes that these sectors will also experience higher valuations, according to a survey of senior private equity executives. These managers anticipate moderate deal flow volume in 2014 along with a slowdown in exit activity.*

The health care and biotechnology industries continue to evolve in the face of shifting reimbursement models, a new paradigm for the uninsured, an aging population and changes mandated under health care reform. In the midst of a sea change, private equity fund managers continue to see opportunities in these sectors…

Fund managers expect that sellers will have high pricing expectations in the year ahead. In alignment with the attractiveness of the health care and biotech industries for investment, these sectors were also selected by 25 percent of fund managers as the most likely to experience increasing valuations in 2014. This was a slight decline from 30 percent last year, but still a significant percentage…

Capitalizing on the evolving nature of these sectors is not new for the private equity industry. According to a recent report published by PitchBook, more than 454 private equity investors have backed U.S. health care companies since 2009. Bringing much needed capital and financially experienced leadership, private equity's involvement has been seen as the saving grace for many health care providers, particularly in the post-acute care space. In addition, the increase in biotech initial public offerings (IPOs) this past year, many of which were venture capital-backed, could fuel future investment opportunities.

▶PE MANAGER

PE HIRING REMAINS FLAT

By Nick Donato

Under half (44 percent) of US-based private equity firms plan to scout the job market for new hires during the next 12 months, according to a survey by professional services firm **BDO** seen by PE Manager ahead of a wider release…

The same percentage of GPs said they planned on hiring in 2013, according to last

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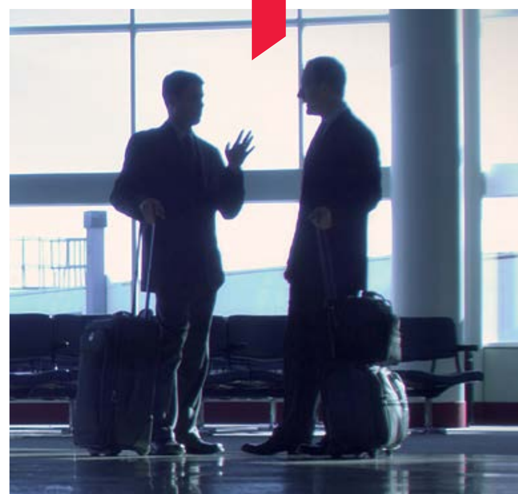


Strategically focused and remarkably responsive, for more than 100 years the experienced, multidisciplinary partners and directors of BDO's Private Equity practice have provided value-added assurance, tax and consulting services for all aspects of a fund's cycle, wherever private equity firms are investing.

year's BDO survey of senior private equity executives.

The survey was a strong indicator of hiring trends in 2013. Slightly less than half of respondents (46 percent) indicated that they had increased headcount over the last year, compared to the 44 percent of respondents who claimed they would be hiring over the next year in last year's survey.

Broken down by firm size, 64 percent of GPs managing between $250 million and $500 million in assets plan to add staff in the next 12 months. Only 14 percent of firms managing between $500 million and $1 billion in assets plan on hiring in 2014.

Roughly half of firms managing under $250 million or over $1 billion plan to increase employee count over the course of the calendar year.

THE DEAL

BUYOUT FIRMS PUT THE JOBS ACT TO WORK

By Jonathan Marino

Though the word entrepreneur appeared seven times in a text copy of an April 2012 speech given by President Barack Obama, at the end of which he signed the Jobs Act into law, private equity got zero mentions.

And though the ostensible goal of the landmark legislation was to spur startups to go public by shielding the initial public offering preparation process as early-stage companies worked out the kinks in their presentations — as well as making it a less costly procedure — private equity firms have been the primary beneficiaries of the legislation in a way that its authors might not have originally intended…

"PE guys like the idea that they can go out and test the market," says **BDO USA LLP private equity practice leader Lee Duran**. "I think it's going to spur more companies to go public by this."

Lately, buyout shops have been preparing IPOs in rapid fashion: almost four dozen companies backed by private equity completed offerings and generated valuations in excess of $20 billion in 2013, according to research firm Prequin…

Duran suggested that, instead of using total revenue, perhaps gauging which is the best startup to go public under the Jobs Act could have been derived from balance sheet items other than a company's revenue.

"I'm surprised revenue is even a measure," he said, suggesting that an evaluation of what the market capitalization might be would have been better.

But the Jobs Act in its current form is popular with the banking, private equity and venture capital communities: Duran estimated that as many as 75% of IPOs are coming through the pipeline, partially thanks to the legislation.

MIDDLE MARKET EXECUTIVE

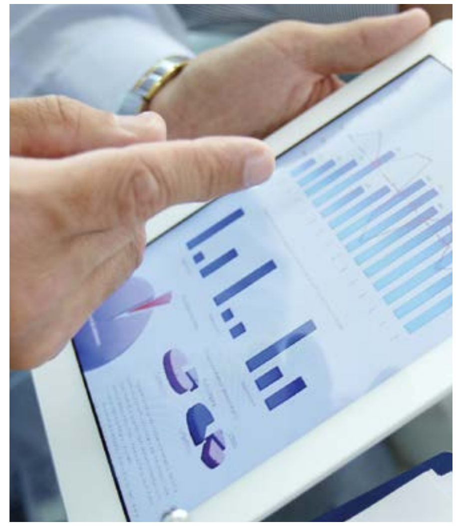
LACK OF VOLATILITY MAY MAKE 2014 A 2013 DEAL MAKING RETREAD, SAYS BDO'S DURAN

By Jack Sweeney

Private equity deal flow is in for a slow year in 2014, according to ***BDO's PErspective Private Equity Study*** released earlier this month. Middle-Market Executive recently caught up with **Lee Duran, leader of the accounting house's private equity practice**, and asked about the study's sluggish findings.

MME: The findings suggest that deal makers will likely do fewer deals this year but invest more capital. This seems like a contradiction of sorts. What's the conventional wisdom out there?

Duran: Well, what we're seeing is that these are really "follow-on" deals. I think it's kind of a sign of a tough market, where many of these companies have discovered that the investment they made in a company and that they had expected would bring the company to profitability and ultimately a sale was not enough. They are going to have to increase their investment, so they have



to go to the recurring investors and say, "Either we cut our losses now or let's put in more capital." What we're seeing is that the deals themselves aren't necessarily getting larger…

MME: You get the sense that the report's findings indicate a year not unlike last year …

Duran: Unfortunately, it's not going to be headline-grabbing news, but yes, we see something like a repeat of 2013. And in 2014, there will be some good companies that everyone is going after because there is a dearth of really good cash flow companies that could use some additional capital to grow. What you'll see is that everyone will be chasing the same types of deals, and you'll get a couple of home runs, but it's going to be tough to find a typical good company whose owner has been at it for years and is stepping aside to bring in a new investor.

MME: Is this tough deal making market reflective of the low-growth economy?

Duran: Well, in the private equity market, volatility is what actually creates great deals, and when you've got a down market or an up market, that's when you find opportunities. In a down market, you find value plays, and there is always more activity because people are looking to deploy capital. They are looking for companies that have a good story but a bad balance sheet. Right now volatility is pretty low, and therefore people are being a little more hesitant to deploy their capital.

Read more

PITCHBOOK NEWS PE & VC EDITION: FRIDAY MORNING DEALMAKERS COLUMN

WHAT'S AHEAD FOR PRIVATE EQUITY DEAL ACTIVITY IN 2014?

By **Lee Duran**

Coming off a year when rising valuations limited fund managers' ability to source and close deals, private equity leaders are anticipating another year of moderate deal flow volume. The recent PErspective Private Equity Study conducted by BDO USA found that only 15 percent of GP respondents predict they will close more than five deals in 2014, which is a drop from the 22 percent of fund managers who predicted in 2013 that they would close more than five deals.

However, despite this reduced expectation, we're also seeing that fund managers are eager to put their capital to work and remain hopeful that they will deploy more capital in the year ahead. In fact, 36 percent of fund managers expect to invest more than $100 million in new deals and add-on acquisitions in 2014, which is a marked increase from last year when only 23 percent reported that they invested this same amount.

Taking a look at exit activity, fund managers are continuing to see longer holding periods, as well as a shift in potential buyers. More than half of the survey respondents (54 percent) indicated that their exit assumptions have changed, with a quarter of survey respondents reporting an increased focus on sales to strategic buyers and 15 percent anticipating an increased focus on sales to financial buyers.

As for investment targets, the majority of the survey respondents see Asia as the geographic market with the greatest opportunity for new investments in 2014, outside of North America, followed by South and Central America.

CONTACT:

LEE DURAN, San Diego
858-431-3410 / lduran@bdo.com

JOE BURKE, McLean, VA
703-770-6323 / jburke@bdo.com

SCOTT CACURAK, San Francisco
415-490-3232 / scacurak@bdo.com

JERRY DENTINGER, Chicago
312-239-9191 / jdentinger@bdo.com

MARK ELLENBOGEN, Washington, DC
301-634-4975 / mellenbogen@bdo.com

RYAN GUTHRIE, Costa Mesa
714-668-7385 / rguthrie@bdo.com

SCOTT HENDON, Dallas
214-665-0750 / shendon@bdo.com

KEVIN KADEN, New York
212-885-8000 / kkaden@bdo.com

TODD KINNEY, New York
212-885-7485 / tkinney@bdo.com

MATT SEGAL, Chicago
312-616-4630 / msegal@bdo.com

DAN SHEA, Los Angeles
310-557-8205 / dshea@bdocap.com

MICHAEL WHITACRE, Atlanta
404-979-7116 / mwhitacre@bdo.com

www.bdo.com/privateequity