Recommendation for Thoma Bravo Discover V, L.P.

To: RISIC
Prepared: May 6, 2024
From: George Bumeder, Managing Director

The purpose of this memo is to provide the RISIC with a summary of Cliffwater's recommendation on Thoma Bravo Discover V, L.P. ("Discover V", or the "Fund"). Cliffwater has completed its investment due diligence and operational due diligence and recommends the Funds as part of ERSRI and OPEB's Private Equity allocations.

Summary of Thoma Bravo Discover V
Fund Overview: Discover V will make control acquisitions of middle market software and technology enabled services companies. Thoma Bravo (the "Firm") utilizes a "buy and build" strategy by completing add-on acquisitions to accelerate growth and improve returns. The Firm manages to specific underwriting criteria typically including cost take-outs, EBITDA growth, and improving a company's cost structure. Since Discover II, the middle market platform has focused on higher growth companies with higher quality revenue bases.

People and Organization: Carl Thoma, Bryan Cressey, and Lee Mitchell formed Thoma Cressey Equity Partners Inc. ("TCEP") in 1998. Previously, Thoma and Cressey had been founders of Golder Thoma & Co., a firm formed in 1980 which was later renamed GTCR. TCEP formed its first fund, Thoma Cressey Fund VI, L.P., in 1998 with $450 million of commitments. TCEP pursued buy-and-build investments in various services sectors including healthcare and business services. Orlando Bravo joined TCEP in 1998 after earning an MBA and law degree from Stanford University and helped the Firm pursue its first software company buyout. Bravo hired the Firm's senior team members who have been exclusively focused on software and technology-enabled services companies. The predecessor organization was renamed from Thoma Cressey to Thoma Cressey Bravo in 2007 in recognition of the leadership role that Orlando Bravo played. Prior to the formation of Fund IX in 2008, the group split with the healthcare focused professionals forming Cressey & Company. Thoma Bravo was the firm that formed Fund IX to predominantly focus on software and technology-enabled services companies.

Thoma Bravo continues to be equally owned by a consistent group of six managing partners (Boro, Bravo, Crabill, Mitchell, Thoma, Spaht), four of whom have a full-time focus on investment activity and have been working together for over 20 years. The Discover funds are led by senior partner A.J. Rohde and partner Hudson Smith. A.J. Rohde was elected to lead the Firm's newly formed Discover fund in the fall of 2015. Rohde was responsible for sourcing and leading deals and was joined by Thoma Bravo colleagues Carl Press and George Jaber in the formation of the fund's middle-market strategy. In 2016 the Discover platform hired Hudson Smith as partner, who previously led the software practice of private equity firm HGGC. In January 2023, George Jaber and Matt LoSardo were promoted to principal level investment professionals with deal lead responsibilities in the Discover funds. Today the Discover platform consists of 19 dedicated investment professionals. The Discover team operates with approximately 4 deal leads across the managing partners AJ Rohde, Hudson Smith, as well as principals Matt LoSardo and George Jaber.

Investment Strategy and Process: Discover V will pursue control buyout investments in growing, middle-market software businesses with high-quality recurring revenue. Discover V is expected to acquire twelve to fifteen platform companies, investing an average of $300 million to $700 million of equity in each business. Discover V will focus on investing in companies with positive revenue growth, and strong revenue retention and recurring revenue characteristics.

Similar to prior funds, Discover V will utilize a consolidation strategy, emphasizing value creation through acquisition-driven revenue growth. At acquisition, Thoma Bravo seeks to complete immediate operating improvements to improve a business' profitability. Thoma Bravo typically prefers to work with existing management teams, with support from the Firm's operating partners, to develop rapid operational improvement plans. Immediate cost savings are often realized through a reduction in headcount, and revenue growth is often realized through adjustments to pricing, automation, and outsourcing. Additional proceeds generated through the Firm's initial operational improvements are typically invested back into the business to support revenue growth. Following this initial period of operational improvements, Thoma Bravo will pursue accretive add-on acquisitions for the platform company, integrating businesses that can add or improve product offerings and cross-sell to a new customer base.

Performance: Thoma Bravo Discover funds have continued to rank favorably on a net IRR, DPI, and TVPI basis across funds. Although the Discover III portfolio has been impacted by an early write-off and is generating a net IRR of 8.8%, the fund ranks in the second quartile across net IRR and TVPI relative to 2021 vintage funds. As of December 31, 2023, the Discover strategy outperformed the Russell 2000 index and S&P 500 IT index. Since inception, the Discover platform has produced a net IRR of 24.8%, outperforming the Russell 2000 index by 15.2%, and slightly outperforming the S&P 500 IT index by 0.7%.

The Discover platform's mature funds (Discover I and Discover II) rank in the first or second quartile on a net IRR and net TVPI basis as of December 31, 2023, compared to Cambridge Associates benchmarks for buyout funds formed in the same vintage year. Discover Fund III, a 2021 vintage fund, is generating second quartile net returns of 8.8% and 1.19 times paid-in-capital.

Investment Terms: Cliffwater finds the investment terms, taken as a whole, to be in accordance with industry standards. The Fund will charge a management fee equal to 2% of commitments during the investment period and 2% of invested capital thereafter. The Fund will also charge a 20% incentive fee on a deal-by-deal basis with no preferred return, but with a general partner clawback. The general partner will commit at least 2% of the total fund capital.

Cliffwater Recommendation

Cliffwater recommends an investment of up to $30 million to Discover V as part of ERSRI's Private Equity allocation and an investment of up to $1 million to Discover V as part of OPEB's Private Equity allocation.