



State of Rhode Island  
Office of the General Treasurer

## Thoma Bravo XV, L.P. & Thoma Bravo Discover IV, L.P. - Staff Recommendation

*January-2022*

**RECOMMENDATION:** Approve a commitment of up to \$25 million to Thoma Bravo XV, L.P. (“TB XV”) and a commitment of up to \$35 million to Thoma Bravo Discover IV, L.P. (“Discover IV”). ERSRI committed \$20 million to Thoma Bravo XIV, L.P. (2020 vintage) and \$30 million to Thoma Bravo Discover III (2020 vintage).

**ASSET CLASS:** Private Equity

**SUB-STRATEGY:** Middle-Market Buyout

**ALLOCATION:** The target allocation for Private Equity is 12.5%, and the actual allocation as of 12/31/2021 is 12.86%. The pacing plan for Private Equity for the 2022 vintage year is \$300 million committed to 5 - 10 primary funds per year at \$20 - \$60 million per primary fund. Pending approval of the above recommendations, ERSRI will have committed \$150 million to the 2022 vintage year to-date.

**PORTFOLIO FIT:** ERSRI has emphasized middle-market buyout strategies that often have a sector specialization and/or operational value-add approach within the Private Equity portfolio. Both the TB XV and Discover IV strategies target control buyouts of companies within application, infrastructure, and security software and tech-enabled services sectors and employ an operation value-add approach. TB XV will seek to acquire companies at the larger end of the middle-market segment, with average equity checks of \$900 million (enterprise values between \$2 and \$10 billion). Discover IV will target smaller investments between \$300 and \$700 million (enterprise values between \$700 and \$800 million). Thoma Bravo is ERSRI’s only buyout fund that is dedicated to software at this stage and market size. As of 12/31/2021, the actual exposure (on a NAV basis) for the Private Equity portfolio to the TMT sector is 24.7%.

**MERITS:** Thoma Bravo’s core strength is its deep expertise within the software sector. The firm began focusing on software companies in 2008, successfully executing almost 100 platform acquisitions across its Flagship and Discover series since. Thoma Bravo consistently executes a differentiated buy-and-build strategy by making platform acquisitions in companies with highly recurring revenues and strong free cash flow generation underpinned by subscriptions in mission-critical products. This allows the firm to finance its add-ons primarily through platform company cash flows. Thoma Bravo has completed approximately 240 add-on acquisitions for software platforms, of which only approximately 30 required capital injections. After acquisition, Thoma Bravo provides operational value-add via cost structure adjustments, sales initiative restructuring, and expansion of sales channel relationships.

Thoma Bravo’s success is underpinned by its strong and experienced team. Thoma Bravo has 55 investment professionals, which specialize by sub-sector. Thoma Bravo’s team includes six managing partners who have worked together for over 15 years. The firm can also call on 25 operating partners to provide strategic guidance to company management or serve in executive roles as needed as well as a suite of operating advisors who assist in functional areas such as R&D, professional services, and marketing.

**CONCERNS:** Both TB XV and Discover IV have increased their target fund sizes over the prior iterations. TB XV is targeting \$22 billion in commitments compared to \$14 billion in the prior fund, while Discover IV is targeting a size of \$5 billion compared to \$3B in the previous iteration. This steep fund growth is mitigated Thoma Bravo’s consistent approach to portfolio construction as Thoma Bravo will not increase the number of deals in each fund, instead targeting larger deals which is in-line with trends in the software market as increased competition has led to deal acceleration and higher valuations. Thoma Bravo’s large and well-resourced team is well positioned to compete in this accelerated environment.

**ESG:** Thoma Bravo is categorized as a **Leader** on ESG. The firm is a member of the American Investment Counsel and as a member has adopted its responsible investment guidelines developed under the UNPRI umbrella. Investment professionals integrate ESG considerations into their due diligence using a set of factors within its “ESG matrix.” If material ESG risk or opportunities are identified, they may be incorporated into the firm’s action plan for a portfolio company. Thoma Bravo partners with its portfolio company Cority to collect ESG metrics biannually from all of its non-public portfolio companies including total energy spend, greenhouse gas emissions, employee turnover, employee engagement surveys, data breaches, and patent/IP litigation, among others. The firm publishes an ESG report to LPs annually.

With respect to Diversity, Equity, and Inclusion (DEI), Thoma Bravo has a strong culture of inclusion and a commitment to treating employees fairly. The firm has committed to ILPA’s Diversity in Action initiative and partners with several external DEI-focused organizations including Declare, Sponsors for Educational Opportunity, Women’s Association of Venture Equity, The Synergist Network, Private Equity Women Investor Network, and Women’s Private Equity Summit.

**FEES:** The fees are in accordance with industry standards. TB XV will charge a management fee of 1.5% of commitments during the investment period and 1.5% of invested capital thereafter. Discover IV will charge a management fee of 2% of commitments during the investment period and 2% of invested capital thereafter. Both TB XV and Discover IV will charge a 20% carry with no preferred return on a deal-by-deal basis.