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BUYOUTS

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FEATURING Hamilton Lane

SECONDARIES DEAL OF THE YEAR

NEA

2019

By Chris Witkowsky

Ravi Viswanathan, managing partner of NewView.

Photo courtesy of the firm.

It's not often that you come across a deal that is considered the harbinger of things to come.

But that is the case with our Secondaries Deal of the Year. The deal in question was the $1.35 billion spinout of a group of assets from older funds managed by **New Enterprise Associates** into a new firm called **NewView Capital**. The deal closed in October 2018.

Restructuring wave

The deal is widely viewed in the industry as the first of what could be a wave of secondary-type restructurings of older venture funds. While the venture world has seen its share of secondary activity, especially after the tech bubble burst in the early 2000s, it's not been as active a player as the traditional private equity community.

"I think this will be a trend; a very logical, rational trend. The key is to find a win-win-win in the portfolio. It takes time, curation, managing conflicts," said **Ravi Viswanathan**, former NEA general partner and head of NewView.

The deal involved Viswanathan, who left the venture firm to form NewView. A group of investors led by **Goldman Sachs** and including **Hamilton Lane** and 18 other investors bought 31 assets out of four older funds with vintages from 2006 to 2015 and moved them into the NewView vehicle.

Companies that were part of the spinout included **23andMe**, **Duolingo** and **Uber**, as well as several enterprise SaaS and cloud/hybrid services providers. The portfolio mix included 25 percent cloud/hybrid solutions, 19 percent transportation logistics, 18 percent education, 12 percent consumer technology, 4 percent e-commerce/retail analytics and 23 percent other.

The $1.35 billion also included capital for add-ons and new investments, Viswanathan told *Buyouts* in a recent interview. **Lazard** worked as secondary adviser on the deal.

Three key factors

The deal was driven by three factors: the desire for many private companies to stay private longer and avoid going public; venture funds having a contractual timeline during which they are supposed to sell off the portfolio; and finally, the desire on the part of many LPs to actively manage their portfolios.

One of the biggest challenges of the deal was coming up with a basket of assets that would move with the spinout. This was a potentially fraught situation since existing LPs had concerns that the best companies were leaving their funds, while new investors would want to make sure they were getting strong assets as part of their investment in the new shop.

The deal took several months, during which time NEA and Viswanathan worked to curate the portfolio and get buy-ins from LPs on the deal.

The group choosing portfolio companies included NEA's general counsel and a committee of NEA GPs, some representing NewView and others representing existing NEA funds.

"We took a pretty rigorous look at the portfolio," Viswanathan said. The companies included in the spinout needed to be in the sweet spot: not those that moved the needle, but also not the weaker businesses because they wouldn't attract buyers.

The companies selected for the spinout had material upside, where putting them into the new vehicle made sense for them to see continued growth, sources said.

Other factors that determined if a company got sold included whether it was in an older fund and whether the executive behind the initial deal still working on it. "It was a several month process … we met weekly, we honed it, and we brought it to market," Viswanathan said.

Another factor that helped make the deal successful was the support of NEA, he said. "It's a spinoff from NEA, and we had a lot of support from them in the transition," Viswanathan said. NEA has an economic stake in the new firm and is an investor in the spinout, he said.

It remains to be seen if indeed the NEA spinout was the first drop in a torrent of secondary deals in the venture industry. What is true is that the market is flooded with capital, larger funds are being raised and in cases, solutions will have to be found to manage them out.

SNAPSHOT

Company: New Enterprise Associates

Financial adviser: Lazard

WHY THEY WON

- One of the largest secondary deals of the year at $1.4 bln
- Navigated a host of challenges
- Moved out 31 companies from four older funds
- Attracted Goldman Sachs, Hamilton Lane and other investors