



State of New Jersey

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May 19, 2021

MEMORANDUM TO: The State Investment Council

FROM: Corey Amon
Director

SUBJECT: **Private Equity Investment - Excellere Capital Fund IV, L.P.**

The Division of Investment (the “Division”) is proposing an investment of up to \$100 million in Excellere Capital Fund IV, L.P. (the “Fund”), a lower-middle market fund managed by Excellere Capital Management II LLC (“Excellere”, the “Firm”). This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Division is recommending this investment based on the following factors:

Consistent strategy and disciplined investment process. Since inception, Excellere has not strayed from its focus on investing in founder-led businesses, with 96% of its platform investments being made in founder/family-owned businesses and 100% of its platform investments including significant reinvestment from founders and/or management. Excellere has also remained in its niche segment of the lower/middle market, keeping its fund sizes below \$1 billion. Similarly, Excellere has been disciplined in its capital deployment pacing, doing between one and three platform investments per year and raising a new fund every four or five years. Excellere has also been consistent in its value creation, combining organic growth through geographic expansion with strategic add-on investments. As a result, from initial investment to exit, in aggregate Excellere’s portfolio companies have grown revenue at a 32.1% compound annual growth rate (“CAGR”) and earnings before interest, taxes, depreciation, and amortization (“EBITDA”) at a 32.6% CAGR.

Conservative use of leverage. Excellere’s investment strategy is based upon growth as well as strategic and operational enhancement and is less reliant on the use of leverage. Excellere conservatively capitalizes its portfolio companies at the time of purchase. Since inception, the weighted average leverage of Excellere’s portfolio companies at time of acquisition was less than 3.2x EBITDA with no portfolio company having leverage greater than 5.6x EBITDA. This compares favorably to broader U.S. buyout leverage multiples which on average ranged from 5.3x EBITDA to 6.8x EBITA over the same period (according to *McKinsey Global Private Markets Review 2021*). Notably, all Excellere portfolio companies maintained satisfactory liquidity during COVID and none of them required a capital infusion.

Focused and well-resourced team. Excellere has only one investment strategy with the Firm's entire resources focused on that lone strategy. The investment team is highly motivated and economically incentivized, sharing 100% of the economics of the Fund. Excellere currently has 16 investment professionals, and is expecting to add more Associate-level investment professionals by year-end. The Firm has additional operations-focused resources in the form of a 30+ member Project Expert Network of external consultants and subject matter experts as well as its 15+ Strategic Alliances with former operating executives. These resources support sourcing, due diligence, value creation, and serve on the boards of Excellere portfolio companies.

A report of the Investment Policy Committee ("IPC") summarizing the details of the proposed investment is attached.

Division Staff and its private equity consultant, Aksia TorreyCove Partners, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

As part of its due diligence process, staff determined that the Fund has engaged a third-party solicitor ("placement agent") in the fundraising of the Fund but no placement agent was engaged or paid in connection with the Pension Fund's potential investment.

The Firm's environmental, social, and governance ("ESG") policy and related diligence disclosures were reviewed by the Division's Corporate Governance team in accordance with the Council's ESG Policy. Excellere has a formal ESG policy and ESG at the Firm is overseen by their Chief Compliance Officer. Excellere incorporates ESG considerations into its investment process during both the pre-investment and post-investment phases, and integrates ESG into the research, analysis, and decision-making processes.

Staff will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. A preliminary Disclosure Report of Political Contributions has been obtained in accordance with the Council's regulation governing political contributions (N.J.A.C. 17:16-4), and no political contributions have been disclosed. An updated Disclosure Report will be obtained at the time of closing.

Note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. Excellere Capital Fund IV, L.P. is considered a private equity buyout investment, as defined under N.J.A.C. 17:16-90.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the IPC was held on May 12, 2021. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's May 26, 2021 meeting.

Attachment

Fund Name: Excellere Capital Fund IV, L.P.

May 19, 2021

Contact Info: Brad Cornell, 3033 East First Avenue, Suite 700, Denver, CO 80206

Fund Details:

Firm AUM:	\$1.4 billion	Key Investment Professionals: Brad Cornell – (Managing Partner) – Mr. Cornell is a member of Excellere’s Investment Committee and Management Committee. He focuses on the pharmaceutical and pharmacy services, industrial and infrastructure services, and business services industries. Prior to joining Excellere in 2010, Mr. Cornell served as a Director at Lake Capital. His past experiences include leveraged finance with GE Capital, investment banking with William Blair & Company, and corporate finance with First Chicago Corporation. Ryan Glaws – (Managing Partner) – Mr. Glaws is a member of Excellere’s Investment Committee and Management Committee. He focuses primarily on pharmacy and pharma services, and medical products and diagnostic tools. Prior to joining Excellere in 2006, he was Assistance Vice President for GE Capital’s Healthcare leveraged finance group. Mr. Glaws began his career with Bank One’s Capital Markets group. Matthew Hicks (Managing Partner) – Mr. Hicks is a member of Excellere’s Investment Committee and Management Committee. He focuses on entrepreneurial-owned healthcare businesses and industrial services buy-and-build growth strategies. Prior to joining Excellere in 2007, he was an investor at Stone Arch Capital and George K. Baum Merchant Banc, and investment/financing professional in Bank of America’s private equity subsidiary. Patrick O’Keefe (Managing Partner) – Mr. O’Keefe is a member of Excellere’s Investment Committee and Management Committee. He focuses on the healthcare business services, provider services, industrial growth, and specialty chemical market segments. Prior to joining Excellere in 2007, he was an investment professional with H.I.G. Capital and an Analyst at JPMorgan M&A group.
Strategy:	Private Equity Buyout	
Year Founded:	2006	
Headquarters:	Denver, CO	
GP Commitment:	At least \$25 million	

Investment Summary	Existing and Prior Funds																
Excellere Capital Fund IV (the "Fund") will target control investments in North American lower-middle market companies within the healthcare, industrial, and business services sectors. Approximately two-thirds of the Fund’s capital is expected to be allocated to the healthcare industry, which will specifically focus on investments in provider services, pharmaceuticals & pharmacy services, healthcare products & diagnostic tools, and outsourced healthcare business services. Target portfolio companies will have niche customer bases, cost advantages, intellectual property, strong brand identity, robust technology, and product or service innovation. The Fund will pursue traditional buyouts and recapitalizations and may also opportunistically pursue non-control investments. The Fund is expected to complete between 10 and 12 platform investments in companies with revenues between \$25.0 million and \$150.0 million that require an initial equity investment from the Fund of between \$50.0 million and \$100.0 million.	<table border="1"> <thead> <tr> <th>Funds</th> <th>Vintage Year</th> <th>Strategy</th> <th>Returns as of 12/31/2020</th> </tr> </thead> <tbody> <tr> <td>Fund I</td> <td>2007</td> <td>Buyout</td> <td>32.7% Net IRR; 2.12x Net TVPI; 2.12x DPI</td> </tr> <tr> <td>Fund II</td> <td>2011</td> <td>Buyout</td> <td>32.3% Net IRR; 2.06x Net TVPI; 1.50x DPI</td> </tr> <tr> <td>Fund III</td> <td>2017</td> <td>Buyout</td> <td>19.1% Net IRR; 1.38x Net TVPI; 0.16x DPI</td> </tr> </tbody> </table> <p>Source of Returns = Excellere Partners</p> <p>IRR = Internal Rate of Return; TVPI= Total Value to Paid-In; DPI= Distributions to Paid-In</p>	Funds	Vintage Year	Strategy	Returns as of 12/31/2020	Fund I	2007	Buyout	32.7% Net IRR; 2.12x Net TVPI; 2.12x DPI	Fund II	2011	Buyout	32.3% Net IRR; 2.06x Net TVPI; 1.50x DPI	Fund III	2017	Buyout	19.1% Net IRR; 1.38x Net TVPI; 0.16x DPI
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Vehicle Information:

Inception:	2021	Auditor:	Crowe, LLP
Fund Size:	\$750 million target	Legal Counsel:	Latham & Watkins LLP
Management Fee:	2% on committed during investment period 2% on invested thereafter		
Carry:	20% over 8% preferred return 25% over a 2.0x net MOIC and 8% preferred return		
Hurdle Rate:	8%		

NJ AIP Program

Recommended Allocation:	up to \$100 million	LP Advisory Board Membership:	YES
% of Fund:	13.33% of target fund size	Consultant Recommendation:	YES
		Placement Agent:	NO
		Compliance w/ Division Placement Agent Policy:	N/A
		Compliance w/ SIC Political Contribution Reg:	YES

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.