PIER 88

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Many Wall Street strategists are expecting M&A to pick up in the first half of 2025 given M&A volumes as a percentage of GDP remain at historical lows. We suspect volumes were depressed due to a combination of higher rates and a feeling of a more adversarial regulatory environment. Pier 88 submits that many traditional long only and hedged strategies have structural biases that could prevent them from fully capitalizing on an impending M&A wave. We believe the Pier 88 Lake Geneva strategy has a decade plus track record demonstrating a robust investment process that can benefit from an M&A cycle (over 60 Pier 88 portfolio companies taken out by M&A or PE transaction since 2013.)

In our view it is important to understand why companies get acquired before trying to invest thematically in M&A. Our research suggests that companies get bought for 4 main reasons: Adjacency – expanding product offerings to enter new markets; Innovation – leveraging R&D and core competencies to increase product portfolios; Scale – growing size and reach to capture market share; and Financial – unlocking value through expertise, restructuring and flexibility of the private markets. We lump private equity take-outs into the financial bucket but acknowledge that one could describe a company strategy like Broadcom, Symantec or Computer Associates, as financially driven M&A. Below is a chart depicting our portfolio exits since the strategy's inception in October 2013.[1]

ADJACENCY	SCALE
Expanding product offerings to enter new markets	**Growing size and reach to capture marketshare**
Oracle acquires Responsys	Zillow acquires Trulia
Endurance International Group acquires Constant Contact	Envestnet acquires Yodlee
Expedia acquires HomeAway	Dialog acquires Atmel
Oracle acquires Opower	Nice Systems acquires inContact
Marvell acquires Cavium	Qualcomm acquire NXP Semiconductor
On Semicondcutor acquires Fairchild Seminconductor	SirisXm acquires Pandora
Microchip acquires Microsemi	Cloudera merges with Hortonworks
NVIDIA acquires Mellanox	Stryker acquires Wright Medical Group
Infineon acquires Cypress Semiconductor	Digital Realty Trust acquires InterXion
Globus Medical acquires Nuvasive	Apergy merges with Ecolab
Tata Communications acquires Kaleyra	EA acquires Glu Mobile
Google acquires Mandiant	Ingersoll Rand acquires SPX Flow
Intel acquires Altera	Global Payments acquires Evo Payments

INNOVATION	FINANCIAL
Leveraging R&D and core competencies to increase product portfolio	**Unlocking value through expertise, restructuring and flexibility of the private markets**
Intel acquires Mobileye	Vista Equity acquires Tibco
Merck acquires Cubist	Insight Venture Partners acquires E2Open
Alexion acquires Synageva	Permira Advisers & CPPIB acquire Informatica
Verizon acquires Fleetmatics	Vista Equity Parters acquires Cvent
TDK acquires InvenSense	Vista Equity Partners acquires Marketo
SAP acquires Callidus Software	Thoma Bravo acquires Qlik Technologies
Thermo Fischer Scientifc acquires Qiagen	ESW Capital acquires Jive Software
Livongo merges with Teladoc	Vista Equity Partners acquires Apptio
Gilead acquires Immunomedics Inc.	Apollo acquires Shutterfly
Merck acquires Acceleron Pharma, Inc.	Clayton Dubilier & Rice acquires Anixter
Xylem acquires Evoqua	Vista Equity acquires PluralSight, Inc.
Amgen acquires Horizon Therapeutics	Thoma Bravo acquires Proofpoint
Cisco acquires Splunk	The Jordan Company acquires Echo Global Logistics
Bristol Meyers Squib acquires Mirati Therapeutics	Nordic Capital & Insight Global acquire Inovalon
Cummings acquires Meritor	Thoma Brave acquires Ping Identity
	Bansk Group acquires PetIQ
	Permira Advisers acquires Mimecast
	Nautic Partners acquires Tabula Rasa Healthcare
	Clearlake Capital Group & Insight Partners acquire Alteryx

[1] *Not all acquisitions are profitable. The positions can be acquired at a price that is less than the price at which the Firm purchased its interests for its clients. The information is being shown to reflect the Firm's ability to select investments that are likely to be acquisition targets and not to reflect any positive investment experience. The holdings identified do not represent all of the securities purchased, sold, or recommended for Pier 88's clients. It should not be assumed that investments made in the future will be profitable or will equal the performance of the securities in this list. Additional information, including (I) the calculation methodology; and (ii) a list showing the contribution of each holding to the account's performance during the period will be provided upon request. Past performance is not indicative of future results.*

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And although we agree that there is a cyclical nature of M&A, our experience suggests that there remains continuous demand for M&A in innovation sectors as companies realize they are behind technically and pursue an acquisition to bolster capabilities. Timing M&A is challenging and one we think is not worth trying; there are so many variables including having a willing seller. Our experience suggests that management teams with stocks that have corrected due to a market sell off, tend to have a hard time getting excited about a bid at a lower price. Ironically, it is often the market sell off and lower stock price of the target that gets a buyer more excited. It often takes a period of time at a depressed stock level for a founder or management team to be more receptive to a more modest offer. This creates a waiting period wherein a smaller or midcap company languishes in a no man’s land as long only growth managers are not interested in owning a broken growth stock where the chart looks anemic. Moreover, long only value managers are not interested as often the small and midcap growth companies have no real earnings yet so the stock is not “cheap enough” while hedge funds focused on a shorter time horizon may not have the ability to wait for the stock to work.

The other structural barriers we see to capitalizing on M&A are “benchmark hugging” in the long only world and “pair trading” for hedge funds. Our own conversations with allocators focusing on periods of underperformance makes us sympathetic. Managers feel the pressure after a period of underperformance to a benchmark. This often leads a portfolio manager to own more names and to closet index or hug a benchmark. More names in a portfolio dilutes the impact of M&A if the manager got lucky to own a position; however, often the manager is reluctant to stray too far from the benchmark and thus not exposed to the target. Our friends in the long short hedge fund world, have shared their collective experience of what happens during an M&A event. If the pair trade involves two companies in the same industry, news of the transaction often causes many names in the same industry to appreciate on the news thus causing the manger to lose on the short. Imagine the pain that some managers felt who were long AVGO/short CA the day AVGO acquired CA!

Knowing the above structural constraints for many investors, we created the Lake Geneva Strategy to pursue a simple elegant thesis: identify the most attractive growth business in an industry, maintain a disciplined approach to risk/reward parameters and portfolio construction, and take the long view. Our strategy is to be patient growth investors knowing that we could win long term if the companies grew into massive franchises, and if the market short term behavior could not see what we could see, a larger industry player or private equity player would.

Fundamentally, the Lake Geneva Strategy is focused on companies levered to multi-year secular growth opportunities. We believe our portfolio companies are building innovative businesses that are not only taking market share in their respective industries, but their depressed valuations will also lead to an environment of accelerated M&A by larger industry players and take-outs by private equity firms. Our decade long investment strategy has demonstrated that the larger industry players look externally to augment internal R&D capabilities. The data has been fairly consistent with 5-6 acquisitions per year. This trend is not cyclical in our view. It’s part and parcel of the secular growth sectors – companies tend to gravitate to the same growing market trends, and often need to look externally to help them get there.

We are grateful for our clients and sincerely believe that being a steward of assets for others is an honor and privilege.

Frank Timons

CEO

Pier 88 Investment Partners

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