# PE Hub

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**PE DEALS**

# Bridge Growth's sale of Accedian to Cisco closes today in challenging exit environment

'Strategics are in the driver's seat today,' says Alok Singh, the CEO and co-founder of Bridge Growth Partners.

Bridge Growth Partners, a technology-focused investment firm based in New York, is announcing this morning the completion of its sale of Accedian, a Montreal-based network performance specialist, to Cisco, the San Jose-based tech giant known for networking equipment and services.

PE Hub asked Alok Singh, CEO and co-founder of Bridge Growth, for his thoughts on the sale process and making an exit in today's challenging dealmaking environment. Announced in June, the deal's terms were not disclosed, and Singh declined to comment on valuation and return on investment.

Alok Singh, Bridge Growth Partners

**Q Walk us through the sale process of Accedian.**

Accedian was a strategic sale to a long-standing strategic alliance and technology partner. We first started developing a deep relationship with Cisco in August 2021 when Cisco began to offer Accedian's technology through its platform.

Cisco is a strategic acquirer. It's buying highly regarded, proven and accretive product capabilities which will be part of their product portfolio. They presented a compelling offer to the board for the acquisition. From a deal perspective, we believe it is a great fit.

**Q Did Cisco, as a strategic buyer, have any advantages over PE firms as a buyer in this market?**

Absolutely – in addition to price and other terms representing significant value for our shareholders as well as a pre-existing understanding of the company and its technology resulting from the long-standing relationship between the companies – Cisco is a great fit for Accedian's clients, and importantly for its employees. Accedian will also be very beneficial for Cisco's clients as part of its broader assurance platforms enabling end-to-end network performance and user experience monitoring.

**Q What are the deal opportunities for tech companies in the fourth quarter?**

The fourth quarter calendar is typically the largest revenue- and cash-generating quarter for technology companies. Understanding this, we think both potential buyers and lenders will want to see how companies perform versus expectations this quarter and assess their momentum going into 2024. Our view is that growth is becoming more challenged for many companies as the year has gone by and will continue to be in the year ahead.

Senior financing in the fourth quarter is also generally harder to get and close, particularly as you go past Thanksgiving. Fact is, higher sustained interest rates over 2023 are now increasingly impacting levered companies by burdening them with significantly more interest expense than they bore in 2022, or certainly in 2021 when rates were historically low. We don't see all-in-interest costs coming down during 2024 and even into 2025. Consequently, we think lenders will likely want to stress-test how companies perform with meaningfully higher interest expense burdening them over the next 12-18 months. The days of almost free money are gone.

We anticipate generally subdued exit activity other than sales of assets to corporate buyers which can be considered as strategic moves, such as Cisco buying Accedian. Clearly, strategics are in the driver's seat today, but they are picky as to the assets they buy as their acquisitions are meant to advance their strategic development agendas. Businesses controlled by private equity firms can also fall into this category of buyers. Generic sponsor-to-sponsor activity on the other hand, particularly in sectors which require significant leverage to generate appropriate equity returns, will continue to trend significantly below normal historical levels in our view throughout 2024.

Of course, some growth or rollup plays will continue to be funded with pure equity, and some firms will also buy businesses deploying mostly equity, with the hope of layering in more debt later. A bit of a risky play, in our firm's view, given all the refinancings that need to be executed during 2024 and 2025. Frankly, as I stated before in my February 2022 interview with PE Hub, we thought valuations were overly inflated beginning with the onset of covid – and indeed they have generally remained inflated so far into 2023.

This year, the impact of interest rates on levered companies and on sponsors has become increasingly visible and, before too long, we believe exits will need to start happening at lower valuations, or additional money will need to be raised at lower valuations, to reduce leverage if sponsors want to hold onto their assets for longer. This also goes for refinancing existing debt or for financing acquisitions.

Willingness by sponsors to transact at exit multiples which reflect today's economic environment and near-term prospects is needed for the current impasse to break between sellers and buyers as to fair value of assets. Hopefully, this thinking will be encouraged by limited partners, who are increasingly pushing general partners for distributions. At the end of the day, for investors, it's all about generating cash on cash versus paper gains.

**Q How do you see the technology sector evolving over the next few years?**

We think technology will fare better during the next several years than many other sectors. At least in the technology space, the forces at work driving the need for digital transformation are still present, and indeed they are in their earlier stages. AI is an additional catalyst that is now encouraging companies to move faster. In our view, companies who want to continue to grow, and be competitively well positioned, will actually need to accelerate their digital transformation journeys.

**Q Does Bridge Growth have other companies up for sale now?**

We don't generally comment on this, but what we can say is that in the recent short term, we generally focused on exiting our portfolio companies, as we did with Finalsite to Veritas Capital and Salient CRGT to Welsh Carson in 2021 and now with Accedian to Cisco.

We are now looking forward to 2024 when we believe more quality assets at valuations which are fair and will work for buyers should become available; particularly those where a technology firm with a seasoned and experienced team like ours can make a real difference and help transform into strategically valuable assets. ■

For more on how Bridge Growth grew Accedian before the sale, see our previous in-depth coverage and interview.