Riverbed Follows New Course in Vector Deal Flow

Vector Capital's Andy Fishman

Vector's Andy Fishman discusses turnaround strategy and the firm's recent purchases of tech companies from lenders.

By Chris Nolter

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[illegible] recent purchase of Riverbed Technology LLC reflects a burgeoning niche for middle-market technology turnaround investor Vector Capital Management LP:

buying companies from lenders who converted debt to equity through reorganizations.

Information technology provider Riverbed, which counts Fortune 500 companies as clients, restructured through a 2021 Chapter 11 case, with creditor Apollo Global Management Inc. leading a recapitalization. The company is the fourth lender-backed outfit that Vector has backed in recent years, and won't be the last.

“We've created a unique playbook to offer support and solutions for lender-owned technology businesses to drive a creative solution, which positions us well as we prepare to enter into a potential downturn,” Vector’s Andy Fishman said in an interview.

While take privates and deals with VC-backed companies have long been Vector's domain, Fishman said the firm is striking more deals with companies that have reorganized.

"I believe we've done just as many, if not more, middle-market technology deals buying directly from the lender community than anybody," he said.

Riverbed's Ecosystem

Riverbed develops technology that helps large companies with complicated infrastructure monitor and improve performance of their networks. Vector acquired the company from lenders for an undisclosed sum in May.

The San Francisco company does not disclose finances. However, Moody's Investors Service Inc. reported that Riverbed's sales came to about $535 million for the twelve months ended September 30, 2022.

“Riverbed is a spot-on Vector transformative investment,” Fishman said.

"It was a technology business that had gone through a bankruptcy," he said. "It was owned by a prior sponsor and taken over by the lender community."

llo is providing some of Riverbed's debt. It's the second time the firms have rked together. Apollo was also a lender to Aspect Software Inc., which Vector acquired and sold.

While Riverbed's lenders support the transaction and are providing a new credit facility, the software company was on shaking ground recently. Moody's downgraded Riverbed's debt from Caa1 to Caa3 on April 27 — a little more than a month before Vector announced its investment. Moody's attributed the downgrade to "high leverage, weak cash flow, and challenges the company to reverse revenue declines" and cited "liquidity shortfalls and the very high likelihood of default."

The company fits Vector's turnaround theme. "Companies don't need to be profitable to start, but early on in our investment they are usually breakeven to very profitable," Fishman said.

The San Francisco company had an eventful run up to its bankruptcy.

Elliott Management LP targeted Riverbed in late 2013 and offered to buy the company the following year. The company sold to Thoma Bravo LLC and Teachers' Private Capital, the investing arm of the Ontario Teachers' Pension Plan, for $3.6 billion in 2015.

Riverbed landed in bankruptcy in 2021 citing changes in networking, fallout from the Covid-19 lockdowns and the cost of servicing debt.

Vector's Deal Trajectory

For about a quarter of a century, Vector has backed tech turnarounds.

Characteristics of good rebound candidates include "great brands with high renewal rates, large enterprise customers, and very sticky technology," Fishman said. "You need customers with high renewal rates to give you the time to properly execute the operational turnaround."

Deals with VC portfolio companies include the October 2020 purchase of data and semantic metadata management company MarkLogic Corp. in October 2020.

MarkLogic grew rapidly to more than $100 million of revenue. “It was financed at a very high valuation, but never was able to grow fast enough to become public,” Fishman said. “Our transformation story was not to grow fast enough to go public, but to grow more modestly at an enhanced level of profitability, focusing on existing customers.”

The San Carlos, Calif., company announced a sale to Progress Software Corp. (PRGS) for $355 million in January.

Vector's take privates include the $390 million purchase of Saba Software Inc. in 2015 after the talent management technology company had revenue recognition issues.

“The complexity that we were solving upfront was how to take a company private without audited financials, go out and raise debt and turn the business around,” Fishman said. Saba made a series of acquisitions and sold to Cornerstone OnDemand Inc. for $1.3 billion in 2020.

Deals with lender-owned companies follow changes in the market.

"Historically, there haven't been a lot of purchases of technology businesses directly from lenders because interest rates were low, cost of capital was cheaper and a lot of these businesses could pay their interest expense," Fishman said. "There was an inclination to push out into the future, even if some assets needed to be fixed."

Vector acquired customer engagement and workforce management software developer Aspect Software Inc. from lenders in January 2019, investing more than $100 million roughly two-and-a-half years after the company exited Chapter 11 protection. Abry Partners LLC acquired the business in 2021.

The firm acquired event technology company Patron Technology Inc. from lenders in September 2020 through an Article 9 sale, in which secured lenders can sell their collateral outside of bankruptcy.

Vector purchased in-store digital signage and media company Mood Media Corp. from lenders in 2021, months after the company exited bankruptcy.

Forecasting Tech Turbulence

Tech distress should continue this year, according to Moody's.

The ratings agency forecasts that 3.6% of high-tech issuers will default in the coming year, a significant increase from the 2022 default rate of 0.3%. Tech is still at the low end of the default spectrum, however. Moody's expects default rates of 12.1% and 9.4%, respectively, for companies in durable consumer goods and advertising, print and publishing.

Within Riverbed's market — information technology — S&P Global Inc. (SPGI) notes there have been 10 bankruptcies so far this year.

The largest was the restructuring of communications and collaboration technology company Avaya Holdings Corp. A group of lenders including Apollo took control of Avaya as part of a plan that reduced the company's debt by $2.6 billion.

Other significant 2023 Chapter 11 filers include data center and cloud technology company Internap Holding LLC, which proposed a reorganization plan in June that would give control of the company to lenders.

DeCurtis Corp., which develops software for cruise ship operators, sought Chapter 11 protection in May. Lender Invictus Global Management LLC is packaging its debt in a credit bid for the company.

The turbulence should increase the pool of lender-owned tech companies.

“We've been around for more than 25 years, so we’ve been through many different market cycles,” Fishman said, noting that the firm’s pipeline is the largest it has been in a very long time.

“We think this universe is going to become more and more attractive for us, particularly as a partner of choice to the lender community,” he said. “We are really excited about the next few years."

TAGS PRIVATE EQUITY MIDDLE MARKET UNDISCLOSED TECHNOLOGY SOFTWARE AND SERVICES EXCLUSIVE INTERVIEW UNIQUE ANALYSIS EDITOR'S PICK

COMPANIES MENTIONED

Abry Partners LLC | Apollo Global Management Inc. | Aspect Software Inc. | Avaya Holdings Corp. | Avaya Inc. | Cornerstone OnDemand Inc. | DeCurtis Corp. | Elliott Investment Management LP | Internap Holding LLC | Invictus Global Management LLC | MarkLogic Corp. | Mood Media Corp. | Moody's Investors Service Inc. | Patron Technology Inc. | Progress Software Corp. | Riverbed Technology LLC | S&P Global Inc. | Saba Software Inc. | Teachers' Private Capital | Thoma Bravo LLC | Vector Capital Management LP | Vector Ltd.

PEOPLE MENTIONED

Andy Fishman