
The great PE fleecing of Aussie tech investors

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Don't buy from private equity (PE) is a rule that should rarely be broken. All initial public offerings are dressed up to look their best. Private equity floats are prom nights for the society girl who has spent five years in finishing school.

You can be certain that, on the day the company lists on the stock exchange, she will be looking her absolute best. Profit margins and revenue are peaking and every single cent of available cash has been extracted from the business.

But it's the PE buying you need to worry about today. Cashed-up private equity firms are on the hunt for potential debutants. And the ASX's beaten-up tech sector is providing plenty of appealing prospects.

Nitro Software (ASX: NTO), which we own in the Forager Australian Shares Fund, at least has some competitive tension underway. Two private equity firms are slugging it out for control of this PDF and document signing company. Other company's shareholders have been less fortunate. **Nearmap's (ASX: NEA)** board recently caved to a Thoma Bravo offer at \$2.10 per share. The board of **Elmo Software (ASX: ELO)**, too, agreed to a deal last week. And, just this morning, the AFR is reporting a [Pacific Equity partners deal for ReadyTech \(ASX: RDY\)](#) might be close. In all of them, management is in on the deal (they are keeping equity rather than taking cash for their shares).

The smartest guys in the room

Don't take my criticism of PE floats as any sort of disrespect. These guys are smart (yes they are, mostly, guys). That's exactly why I don't like buying things off them. And I can promise you they aren't in the game of making 5% to 10% per annum.

Potentia, one of the two bidders for Nitro, has its coffers flush with cash from the [sale of mining software company Micromine](#) in July of this year. The \$900m sale price was apparently as much as 10 times the 2018 purchase price. Presumably they made a few further acquisitions along the way but, whichever way you cut it, they are targeting multiples of their purchase price, not percents.

PE Bids for ASX Tech Businesses								
	S2wb Range			PE Bid	Status	Bid vs.		
	High	Low	High			Syr High	S2w High	S2w Low
ReadyTech (RDY)	4.20	2.57	4.20	4.50	Granted bidders non-exclusive due diligence to firm up proposal	7%	7%	75%
Newsmap (NEA)	3.17	0.97	3.28	3.00	Scheme Meeting on November 25, and implementation on December 15	-34%	-8%	118%
Elma (ELC)	8.28	2.05	5.58	4.86	Entered into Scheme Implementation Agreement	-41%	-12%	167%
Nitro (N10)	3.88	1.11	3.88	2.00	Competitive bids from Potentia and KKR	-48%	-48%	80%
Infomedia (IFM)	2.38	1.09	1.75	1.70	No binding proposals received from bidders, data room closed	-28%	-3%	56%
Pushpay (PPH NZ)	2.35	0.91	1.90	1.34	Entered into Scheme Implementation Agreement	-43%	-29%	47%
Tyco (TYC)	4.49	0.60	4.12	1.27	Rejected bid at \$1.27, confirmed received approaches from several parties	-72%	-69%	112%

PE Bids for ASX Tech Businesses

And that will be the game with the ASX-listed tech stocks. Take these sub \$100m revenue companies private. Fund an additional 3-5 years of growth. Cobble a few extra acquisitions together. Then rip the costs out in year four and bring it back to the ASX as the next Technology One - a highly profitable, highly valued tech company.

Nitro's public shareholders participated in a rights issue at \$3.43 not even a year ago. Potentia was able to buy 20% of the company for \$1.58 a share in September and could have bought the whole company for not much more had a second bidder not turned up. I'm confident they will be selling it back to us in 2026 or 2027 for more than three times the price.

Granted, very rarely is it the same institutional shareholders at each stage of the cycle. But, collectively, we deserve what we get. You really can't draw any other conclusion. The short-termism of public market investors plays straight into private equity's hands. They use the public markets as an ATM, selling at the top and buying at the bottom, and we keep dishing the cash out.

*The Forager Australian Shares Fund owns shares in Nitro and ReadyTech.