

### Private-Equity Firm Buys Majority of BondDesk

*Retail platform gains investor with a track record--and international contacts*

By Jeffrey Kutler

June 12, 2006 - Boston-based Advent International, a private equity firm with a history of successful investments in electronic securities trading platforms, announced an agreement last week to acquire a majority interest in BondDesk Group, operator of an extensive network for retail fixed-income executions. Advent said the transaction was "in partnership" with BondDesk's senior management team led by CEO Robert Slaymaker; financial terms were not disclosed.



The buyout raises the likelihood that the retail bond marketplace will follow a pattern of outside investment and consolidation seen previously in equities and institutional fixed income. Advent International, which has raised more than \$10 billion in capital since its founding in 1984, was part of the equities wave as an owner of pioneering e-brokerage Datek Online Holdings and of new-breed trading venue Island ECN. They were acquired in 2002, respectively, by Ameritrade Holding Corp. and Instinet.

Institutional fixed-income platform TradeWeb, a dot-com era start-up as was BondDesk, was acquired by Thomson Corp. in May 2004, and its smaller, corporate-bond-focused rival, MarketAxess, went public that November.

Another private equity force in these markets is TA Associates, also in Boston, which has \$10 billion in capital under management and from which Advent was spun out to focus initially and primarily on international opportunities. TA's \$1 billion of financial-sector investments have included Datek and Island and, more recently, commodities market IntercontinentalExchange; trading technology innovator Lava Trading, now a Citigroup subsidiary; transaction platforms Creditex in credit derivatives and eSecLending in securities lending; and fixed-income trading software supplier ION Trading Group.

"We try to put our capital to work in areas where technology can bring improved efficiency and transparency," Advent partner Chris Pike said in an interview last week. Noting that innovative technologies have significantly transformed equities and derivatives markets in recent years, he added, "There is still opportunity to create greater transparency and improve liquidity" in fixed income. "That's what BondDesk does in an area of the market that really needs it--odd-lot transaction execution," said Pike, who along with Advent principal Chris Egan will be joining a BondDesk board that will be reconstituted as the ownership consortium of 14 institutions, including leading Wall Street banks, relinquishes control.

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When Slaymaker, a longtime Bank of America executive, arrived at BondDesk as CEO in December 2004, he hinted that some form of transaction was in its future. He said last week that conversations with prospective "financial and strategic buyers" took place over a period of months, culminating in the deal that was formally signed with Advent on June 1, several days before the public announcement. He stressed that it will be business as usual for the 125-employee brokerage, servicing and software-development outfit that has several offices including headquarters in Mill Valley, Calif., a sizable New York outpost where its BondDesk Trading unit is located; and a technical support group in Rochester Hills, Mich. Advent showed the most interest in BondDesk, added Slaymaker, along with "an understanding and appreciation of this space and the strategy we are deploying." He said that the outgoing ownership group, while intent on retaining close client relationships with BondDesk, concluded that "it is less important to have a consortium" as the company embarks on its next growth phase.

"In partnership with our broker-dealer clients, BondDesk developed a highly comprehensive trading platform for financial advisers and fixed-income traders, providing them with greater efficiency, transparency, ease of use, and unparalleled access to odd-lot fixed-income markets," Slaymaker said in Wednesday's press release. "With Advent as our partner, we will continue to execute our original strategy. We also gain access to their deep financial markets expertise, as well as their global network of investment professionals and contacts."

Elaborating in an interview with *Securities Industry News*, Slaymaker said, "The management team is the same, the way we operate is the same, and we will continue to execute the strategy to be the largest pool of liquidity for odd-lot fixed income."

The company, founded in 1999 with technology developed in the mid-1990s to extend the electronic communications network stock-trading concept to bonds, went through various structural changes and gained traction as individual investor interest in bonds picked up after the 2000-2001 equities downturn. BondDesk has since rounded out its menu of taxable and tax-exempt products. "Once you get in front of the rep, you have to cover all asset classes," Slaymaker explained. Now it offers through its alternative trading system, to more than 75,000 brokers and investment advisers, 30,000 live offerings from over 90 leading dealers. The system executes more than 20,000 transactions daily.

Advent and BondDesk said that they are "bullish about the prospects for double-digit market growth," fueled in part by the aging of the population and an anticipated rotation of assets into fixed income. Advent's Pike stated: "With demographic trends driving long-term demand for fixed-income trading, we expect continued favorable market conditions for BondDesk. The company's trading system provides unmatched liquidity, as well as pre-trade analytical tools geared toward making bond trading easier for retail financial advisers and fixed-income traders."

Pike described Advent's style of working with portfolio company managements as one of being "fairly involved, with consistent communication. We're not managers, but we bring a good external perspective." And the firm's international heritage will come in handy when BondDesk eventually explores overseas growth possibilities. "We have looked at a lot of asset classes and business situations" that can be helpful to BondDesk, Pike said. Fundamentally, though, "management executes the plan and builds the business."

With its announcement of the BondDesk buyout, Advent detailed its recent track record, which included 30 full and partial exit transactions and the raising of three funds totaling more than \$4 billion in 2005 alone. The firm profited handsomely from the January 2005 initial public offering of New York-based interdealer brokerage GFI Group, which went from \$21 a share to \$47 at year-end; the 126 percent appreciation made it the ninth-best-performing stock out of 231 new issues in 2005, according to Thomson Financial. With the pricing of GFI's secondary offering on May 18, Advent has now disposed of 90 percent of its four-year-old position in the company, which Pike and Egan had worked on.

Although GFI's interdealer business model with a voice brokerage component differs from that of BondDesk, Pike said the two companies are similar in their focus on their respective over-the-counter asset classes supported by robust technology.

Advent said that Pepper Hamilton served as its legal counsel in the BondDesk transaction, PricewaterhouseCoopers provided accounting services and UBS Investment Bank was the mergers-and-acquisitions adviser. American Capital Strategies and Merrill Lynch Capital are leading the debt financing to support the buyout. Bank of America was financial adviser to BondDesk and its board; Wollmuth Maher & Deutsch was legal counsel to the company and firms selling ownership units in it.