THE INDEPENDENT VOICE OF EUROPEAN PRIVATE EQUITY

# Real Deals

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INSIDE



## SHOW TIME

*How Jersey is standing firm in the face of adversity.*

# Editorial

**Leader** Talya Misiri

## Prepared and resilient

During this period of grave uncertainty and economic volatility, private equiteers are well positioned to offer the most support.

"Resilience is accepting your new reality, even if it's less good than the one you had before. You can fight it, you can do nothing but scream about what you've lost, or you can accept that and try to put together something that's good," US author Elizabeth Edwards said.

Although not specifically taken from a text discussing today, Edwards' quote on resilience certainly rings true in this current climate. You can either succumb and be defeated by the current Covid-19-induced world that we now find ourselves in, or accept the situation and find opportunity amid difficulty.

While this is undoubtedly a difficult time for many across the globe, private equity is proving its resilience to the current economic volatility that we are experiencing.

According to PitchBook, private markets tend to outperform public ones during times of volatility, and funds that are able to deploy capital through the crisis are positioned to deliver.

We cannot forget that: as an asset class that is sitting on a record level of dry powder as of the end of last year, private equiteers are well placed to help.

In this issue, we have a segment focused on Jersey funds and their continued resilience in the face of unpredictable markets. Our cover feature (pg.6) highlights how key infrastructure has helped Jersey's fund services providers to stabilise and grow their businesses, despite current difficulties.

"Covid-19 will have serious health and social consequences for countries around the world, but after the initial shock, Jersey's fund services providers have proven resilient and organised," Jersey Finance chief executive Joe Moynihan says.

First time funds is another area which is proving to be performing well at present. As noted by Inspirit co-founder Will Stamp: "We are strong believers that these are the times to invest. We can potentially secure better assets that wouldn't be open to us in bull markets."

First time funds are well positioned to take advantage of low valuations, less deal competition from larger funds and have smaller portfolios, which are able to absorb the current hiatus, taking less of a hit in the long term (pg.14).

Nonetheless, more established managers are also embarking on admirable value preservation and value creation initiatives to ensure their investments do not suffer.

### Good news

While we saw our inboxes flooded with "business as usual" emails in the first few weeks of March, now, we are seeing how the asset class is proving it can put its resources to good use.

Specifically, *Real Deals* has been looking at examples of good news/positivity in the industry and how private equiteers and their respective portfolio companies are working to tackle Covid-19.

A key piece of news covered by *Real Deals* is the backing of national treasure The Big Issue magazine by the BVCA's new chair Neil MacDougall (pg.19). MacDougall announced that he is donating what he is saving from his daily commute expenses directly to the business that has seen revenue drop to nil since lockdown measures were introduced, with Silverfleet and the BVCA also backing this initiative.

Moreover, a growing number of private equity firms have announced similar, positive initiatives. French buyout firm Eurazeo has set up a €10m Solidarity Fund. Financed by its cash holdings and Eurazeo executives, €7m will be used as medical and financial support for employees in need and €3m will go to organisations providing immediate support to vulnerable groups.

Similarly, executives at the US-based firm Leonard Green & Partners have announced a plan to provide $10m out of their own pockets to help struggling employees of the firm's portfolio companies, while Swiss-based Partners Group has set up a fund to support its more vulnerable portfolio companies.

The continued effort by private equity firms to support their portfolio company employees demonstrates the industry's high level of engagement with its portfolio in times of economic and social crisis. The industry is proving that it is both prepared and resilient to tackle headwinds such as these. Long may it continue. ●

## & Contents



**Cover illustration**
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# Alphabites

## CVC lowers offer for gaming company

**CVC is reportedly reducing its** offer to acquire gaming company Leyou Technologies, alongside iDreamSky.

A previous offer initially valued Leyou at $1.4bn; CVC and IDreamsky are seeking to lower this figure. Tighter funding conditions and volatility in the market in the wake of the pandemic are reportedly behind the adjusted offer. Leyou's earnings were also a likely factor, with the company reporting a net loss of $8.4m in 2019, compared to net income of $20.4m in 2018.

CVC later joined iDreamSky in the takeover bid in February. iDreamSky, a rival gaming company, had been in talks with Leyou's controlling shareholders since late last year.

The business had planned to hold a majority stake in Leyou, while CVC was set to hold a significant minority stake in the merged gaming group. The companies may not be able to reach an agreement and talks could still fall through. Shares of Leyou have dropped about 13 per cent this month, giving the gaming firm a market value of $7.2bn HKD ($929 m).

## Investors remain cautious - CIL

**CIL consultancy has published** findings from its Covid-19 Sentiment Tracker, a weekly pulse survey that measures the changing priorities of businesses, investors and advisors throughout this period of uncertainty.

Findings show that most private equity and debt providers have a cautious approach towards investing at this time with 25 per cent intending to freeze investments. On the other hand, 15 per cent of investors see the current environment as a buying opportunity.

Right now, cash flow management remains a top priority for respondents, with staff and family welfare also seen as most important.

## PE execs forego their salaries

*The continued effort by buyout firms to support the employees of their portfolio companies reflects the industry's high level of engagement with its portfolio at this time*

**Swiss private equity firm Partners Group** has set up a fund dedicated to supporting employees of its portfolio companies affected by the Covid-19 pandemic.

Partners Group's co-chief executives, David Layton and André Frei, alongside a board of directors including three co-founders of the firm and its chairman, plan to donate 100 per cent of their base salaries for the next six months to support its portfolio companies.

The initiative was announced by Layton last week. He said: "We've targeted investments into solid companies that we believe have fundamental reason to exist and will bring our resources as a large, responsible owner to help their management teams take on whatever lies ahead."

Partners Group is currently working closely with human resources and management teams at individual portfolio companies to ensure that the support reaches those that are deemed most vulnerable.

Other private equity firms have announced similar initiatives. Executives at the US-based firm Leonard Green & Partners have announced a plan to provide $10m out of their own pockets to help struggling employees of the firm's portfolio companies that have been hit hardest by the pandemic.

The continued effort by buyout firms to support the employees of their portfolio companies reflects the industry's high level of engagement with its portfolio at this time, and serves to dispel negative notions about the practices of private equity firms.

In a similar show of support, Silverfleet chair and the incoming chair of the BVCA, Neil MacDougall has initiated continued funding support for The Big Issue, a weekly UK publication that has seen its revenue cut short in the wake of the coronavirus lockdown. MacDougall has announced that he will donate what he is saving from his daily commute expenses directly to the business.

### Umbra's Hastee removes business fees

Umbra Capital Partners' portfolio company Hastee has removed business fees for its services for over 100,000 workers.

Hastee, the earnings on demand tech platform is enabling over 100,000 workers including those in the NHS, care home and manufacturing sectors across 400 businesses to access their wages ahead of pay day, free of charge. This will be made available for a six month period to all staff deemed crucial to the UK's response to the Covid-19 pandemic. Services will also be free for all users across the UK for the next three months.

### Aksia support Italy's hospitals

Aksia Group has contributed €100,000 to local Italian hospitals to help fight the Covid-19 emergency. Aksia noted the donation as an expression of gratitude to the doctors, medical professionals and volunteers, who are persistently working despite the risks they are exposed to. The donation was divided between nine hospitals in some of Italy's most affected areas.

### Inflexion assists Covid-19 efforts

Inflexion is making urgent donations totalling £2.5m to help alleviate the impact of the coronavirus outbreak, through The Inflexion Foundation.

A number of Inflexion portfolio companies are also actively providing support. These include: PharmaSpectra, which is providing its coronavirus database free of charge.

Qdos is offering free communication collaboration products to support those working from home. Lintbells is lending its office space to a charity that helps provide food to NHS workers. Aspen has been providing face masks to GPs.

## The best defence is a good offence

**Fund managers need to start** looking beyond the immediate impact of the Covid-19 crisis and prepare to play offence on the M&A front, LPs have warned.

The majority of GPs have been proactive in reaching out to investors. In a survey conducted by the BVCA, 90 per cent of investors indicated that their GPs are providing regular updates on Covid-19 safety measures. And yet, the most useful GPs were able to predict the cascading impacts of the pandemic. Fund managers that have a more forward-looking approach and are able to identify the less obvious challenges to arise from global market dislocation, are going to be able to better differentiate themselves. "Most GPs have been very quick to tell investors that they are playing good defence, but they also need to show how they plan on playing good offence on the M&A front," Yup S. Kim, senior portfolio manager at Alaska Permanent Fund Corporation, said.

## Insight raises $9.5bn for eleventh tech fund

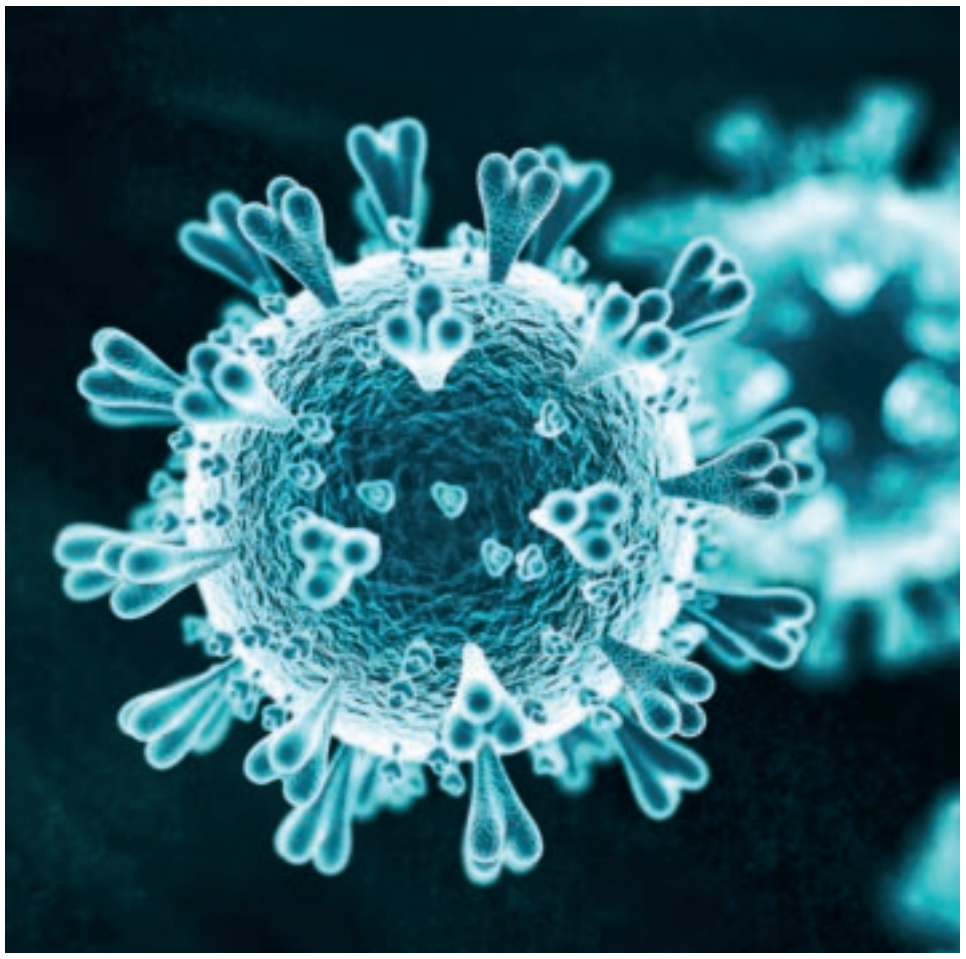
**Global software investor** Insight Partners has raised $9.5bn for the final-close of its eleventh fund. The new vehicle, Insight Partners XI, is one of the largest global funds focused on investing in scaleup software companies.

Commitments to the new fund came from Insight's existing, as well as new, investors.

"First and foremost, we want to acknowledge the current climate and the hardships being felt across the globe,"Jeff Horing, Insight Partners' founder and managing director said. "Fund XI gives us continued flexibility to provide the combination of capital and operating support that suits the different needs of every software company in a dynamic world."

The fund is expected to invest between $10m and $350m of equity in businesses that have advanced from the startup phase and are positioned for rapid growth.

# Covid-19's impact on the emerging tech sector



*Stalled revenues, tightening of funding, lower valuations and slower deal flow, associated with a weakened economy all leave emerging tech companies particularly vulnerable.*

**Earlier this month PitchBook** published: The Ripple Effects of Covid-19 on Emerging Technologies. The report identifies how emerging technology, and the different sectors within it, are being impacted by the Covid-19 pandemic. When it comes to emerging tech sectors more specifically, health tech, food tech, IOT and mobility tech will be most significantly impacted by the pandemic. Overall, investors are more likely to favour emerging tech companies that offer longer term SaaS contracts and easy remote onboarding.

Retail transaction based businesses are likely to have a more difficult time finding investors, given the pullback of consumers and the nature of the pandemic keeping people home.

PitchBook notes that there has been a surge in demand for mental wellness applications. As pandemic anxieties worsen, mental health startups have experienced increased demand. The crisis has driven longer-term interest among corporate clients to make mental health products available to employees.

Increased demand for at-home fitness applications and devices will increase as gyms around the country close, individuals are forced to transition to at-home workout and fitness devices and applications are gaining traction.

Though the pandemic will end, PitchBook expects Covid-19 to have major implications on healthcare technology, suggesting it will spur adoption and innovation of robotics and remote patient monitoring devices. Meanwhile, the pandemic is a catalyst for delivery services. Widespread government-mandated restaurant closures and consumer quarantining is driving unprecedented demand for grocery and food delivery services.

In the long term, companies are expected to increase investments in technologies that expand supply chain visibility, the ability of management teams to track the journey of parts, components and products from manufacturing to delivery.

## HUMATICA CORNER

### Covid-19 – Is your portfolio ready for the long haul?

With Covid-19 wreaking havoc across the developed world, the level of uncertainty for investors and business leaders is unprecedented. The key question is how long will the epidemic last?

Unlike past crises, this one was triggered in the real economy. Demand and supply are spiralling down as a result of social distancing and stay-at-home orders. This has triggered a collapse in incomes with furloughed workers and supply shortages. Governments have generally responded well, with immediate monetary easing and fiscal stimulus to bolster demand and incomes.

However, we are at the peak of a long debt cycle, with historically low interest rates and high public, corporate and household debt. In the US, total debt amounts to $55Tr or 257% of GDP. Debt levels are on track to hit +300% of GDP - a level that could trigger a deflationary depression. And, the risk goes up the longer it takes to "flatten the curve".

So, portfolio managers and CEO's are facing a dilemma: how to maintain specialist competencies and resources needed to bounce-back when the virus is brought under control, versus cutting costs and laying off employees to protect short-term profits?

Thankfully, fiscal stimulus in most European countries eases this choice for the moment by linking it to job preservation. Germany's "Kurzarbeit" and the UK's recently enacted Job Retention Scheme subsidise labour cost as long as the employment relationship is maintained. Furloughed personnel are still technically employed by the company. These approaches enable efficient re-activation of businesses once the markets recover. But what if things take longer, the debt burden grows, and systemic risks appear in the financial markets? Clearly, in the face of this uncertainty, options have high value. That is, portfolio companies should have multiple scenario plans worked out ahead of time on how to rightsize their operations back to the bare minimum. With memories of the GFC and the tech collapse long faded, there is often reluctance to work through the organisational implications of a sustained 30-50% drop in sales, but nevertheless, this is the starting point. Option value is also preserved by acting quickly. That is, bold decision-making and collective agility to implement tough reductions at pace, are rewarded with more financial runway.

As the fall-out from Covid-19 threatens to sink entire portfolio vintages, PE sponsors and CEO's need to walk a tightrope between preserving organisational capabilities in order to resume growth in the likely case of a rebound in 2H 2020, while at the same time preparing to survive a protracted recession or even depression if things go wrong.

# FACING ADVERSITY

In the face of unpredictable markets and a sharp economic downturn, regulatory realism and key infrastructure has helped Jersey's fund services providers to keep the show on the road, writes *Nicholas Neveling*

Back in 2011, Jersey made the decision to invest £50m (€56.7m) in the installation of a full-fibre broadband network to the door of every home on the Island.

At the time a rapid internet connection may have seemed like a nice to have, but in taking the decision to go "full fibre" almost a decade ago, Jersey was taking a leap into the future that over the last few weeks alone has been vindicated multiple times over.

The jurisdiction's fund services industry has seen the benefits of the fibre network first hand. JTC, for example, has all 300 of its Jersey staff and its 800 global team working from home. The firm's director of fund and corporate services Ian Horswell says that despite the huge disruption Covid-19 lockdowns have caused, JTC has been able to implement business continuity plans and operate to its usual service levels with minimal upheaval.

"We have adapted well to the Covid-19 situation and business continues for us," Horswell says. "As a way of example, we are still completing transactions, our trading continues with daily trading funds. We are actually seeing an increase in work as we are being asked by clients for additional NAVs and we are holding virtual board meetings for our clients."

Jersey Finance chief executive Joe Moynihan reports similar stories of stability in the storm

## DONE DEAL: WHY JTC BOUGHT NESF

Earlier this year Investec released data tracking the number of failed auctions. The bank's research found that broken deals were climbing at the fastest rate since the financial crisis.

Bluntly, what the figures reveal is that even in the best of markets, closing a deal is difficult, let alone when the world is in virus-induced lockdown. Yet, JTC Group, closed a deal earlier this month, when it announced the acquisition of US-based counterpart NES Financial (NESF).

Founded in 2005, NESF employs 58 staff and owns the proprietary fund administration platform eSTAC.

The acquisition will expand JTC's reach into a US market that is still not as advanced as Europe when it comes to the outsourcing of fund administration and adds to its capabilities to deliver services using technology.

"The rationale did not change due to the Covid-19 crisis," JTC director of fund and corporate services, Ian Horswell, said.

Markets are more turbulent than at any point in the last decade, but amidst the tumult it seems that the long-term trend towards outsourced fund services, consolidation among providers has a way to go yet.

from fund services providers across the board.

"Covid-19 will have serious health and social consequences for countries around the world, but after the initial shock, Jersey's fund services providers have proven resilient and organised," Moynihan says. "Operations have proceeded smoothly. Customers are ringing the same telephone numbers and getting through to the same people. Remote working has been well-implemented."

Jersey's internet infrastructure has been crucial for facilitating the relatively painless shift to homeworking. Last month the Island's telecoms providers JT, Sure and Homenet agreed to upgrade all customers to upload and download speeds of one gigabit per second at no extra cost. This is 20 times faster than the average UK speed, and ranks Jersey's internet as the third fastest in the world, with only Singapore and Taiwan ahead of it.

Unlike other countries, where fibre networks run along the main cable trunks, but copper cables are still used to deliver the "last leg" to the door of homes and businesses, Jersey's provision is entirely through fibre cables from start to finish.

For the data heavy fund administration industry, which is processing hundreds of thousands of documents and hosting video conferences in similar numbers, the speed of Jersey's connection has reduced the risks of business disruption or reduced productivity.

In the UK, by contrast, networks have held up, but UK internet services providers (ISPs) have reported double-digit increases in internet traffic. Streaming services like Netflix and Disney+ have scaled back their bandwidth usage to free up capacity. UK ISPs are confident that provision will not be interrupted in the near term, but have expressed some caution should lockdown continue for a prolonged period. Jersey has faced no such crunch.

"You can imagine the demand on internet capacity from homes where professionals are working from home, home schooling provision is done online and people are streaming content. Jersey's investment in its internet infrastructure is really paying off now," Moynihan says.

A speedy connection to homes across the Island isn't just about continuity either. It also creates a more robust foundation for cyber-security. When employees can run company software programmes in real time and use encrypted VPN servers without network connections dropping, there is no need to store data on unsecure memory sticks or send documents to personal emails to ensure access while working remotely.

## REGULATORY RESPONSE

In addition to its infrastructure, Jersey's resilience in the face of the Covid-19 outbreak has also been supported by the pragmatism of its regulators and government.

For the fund industry in particular, one of the key provisions in the Island's package of measures to see out the crisis is an amendment to Jersey's rules on economic substance. Where, for example, a company would normally hold board meetings in Jersey, but cannot do so because of travel restrictions or people having to self-isolate, boards will be able to meet virtually or come to other arrangements without failing economic substance tests. Similar flexibility has been allowed for companies that are tax-resident in Jersey but incorporated overseas.

"Our regulatory committees and government have been really supportive of the industry. No managers will be penalised if they are unable to pass the economic substance test during the pandemic. We are in unpresented circumstances and these temporary solutions will help managers focus on their business activities," JTC's Horswell says.

Moynihan adds: "The flexibility from regulators and tax authorities has been well-received. The approach has been one of realism and maintaining regulatory standards while also allowing a degree of flexibility where appropriate."

Jersey has long held a reputation for pragmatic regulation. The circumstances may be more different and extreme, but for now the Island's approach remains reassuringly the same. ●

## BEFORE THE STORM

Covid-19 and its impact on society, economy and healthcare has understandably absorbed all the attention of business professionals across all sectors.

Prior to the escalating spread of the virus at the start of 2020, however, the private funds industry was well-positioned for another busy year.

In its Global Private Markets Review 2020, McKinsey found that private market assets under management (AUM) grew by 10 per cent in 2019 to US$4trn. For the last ten years the AUM growth figure is 170 per cent.

The Jersey funds industry has followed a similar trajectory, with managers turning to the Island and its fund services infrastructure and expertise to support their expansion.

Figures from the Jersey Financial Services Commission show that during the year to the end of 2019, the net asset value of regulated funds under administration in Jersey grew by £25.8bn (€29.3bn) to £345.7bn. The figures do not include assets held in Jersey Private Funds, which numbered 306 at the end of last year.

The alternatives sector, including private equity, venture capital, real estate infrastructure and hedge funds, was a particular bright spot for Jersey, rising by 6 per cent over the year. Private equity and venture capital showed an even sharper rise, increasing by almost a fifth (19 per cent) to £136bn in 2019.

Coronavirus has put those ambitions on hold, but the hope will be that once on the other side, private markets will prove resilient enough to regain momentum. Fund service providers in Jersey, however, are under no illusions about the challenge private markets face as the world navigates the human, social and economic costs of Covid-19.

Ratings agency Fitch is building in the possibility of negative growth into its annual GDP forecasts. PitchBook, meanwhile, says that before the virus even came on the radar, its data pointed to a slower fundraising year in 2020 after a number of mega-fund closes in 2019. The Covid-19 outbreak will weigh on already reduced expectations.

What PitchBook analysis also reveals, however, is that private markets tend to outperform public ones during times of volatility, and that funds able to deploy capital through the crisis are positioned to deliver.

# Q&A

# LAUREN SALKELD

## Executive Director, Fund Services, Ocorian

*Lauren Salkeld talks to Real Deals about Jersey Private Funds (JPFs) and why they are an attractive option for many promoters.*

**By** *Talya Misiri*

**What led to the rise of JPFs and why are they becoming increasingly popular?**
The JPF provides a low-cost and streamlined solution with light-touch regulation, which suits many promoters' strategies of establishing fast, cost-effective funds to pool capital and invest in a number of assets. Whether launching their first fund or indeed a successor fund, the simplified application process and fast track 48-hour approval timeframe is widely appealing.

The previous private fund regime in Jersey comprised multiple products. The launch of the JPF in 2017, offered a simplified and streamlined solution, replacing the previous regime.
The JPF is highly flexible and can take the form of a limited partnership, company, protected cell company, incorporated cell company, LLP, SLP, ILP or unit trust. Furthermore, the reliance on the designated service provider is advantageous to promoters, as it alleviates the regulatory burden from themselves.

**What does the designated service provider role entail? What regulations surround JPFs?**
The designated service provider (DSP) role includes ensuring that the JPF meets the required eligibility criteria; ensuring all necessary due diligence has been carried out regarding the JPF and its promoter and ensuring compliance with local AML/CFT requirements. There is also an obligation to notify the Jersey Financial Services Commission regarding any material events or changes, plus submission of an annual compliance return.

The key point to note is that in order to provide the DSP role, the service provider must be registered by the Jersey Financial Services Commission under the Financial Services (Jersey) Law 1998, to carry on one or more of the classes of funds services business specified. The JPF also requires a consent to the Control of Borrowing (Jersey) Order 1958. The regulation is light-touch and there are no additional regulations imposed upon the JPF.

**What makes JPFs attractive to venture capital and start-up businesses?**
Primarily it's the flexibility, structuring and marketing options, streamlined authorisation process and low-cost attributes. Start-up firms and venture capital promoters are often looking for flexibility in terms of a jurisdiction which meets their investor's needs. So, the fact that the JPF can be domiciled in any jurisdiction is attractive.

Compared to products offered by other popular domiciles of choice, the JPF will often prove favourable due to Jersey's strong track record in the funds industry, regulated stability, best practice standards, strength and depth of resources and "Anglo-Saxon" ethos.

**Can JPFs be attractive to all types of firms?**
Definitely. As well as venture capital and start-up firms, we've also seen the product prove favourable with family offices and large PE houses. Whilst firms will continue to utilise the collective investment fund regime for the launch of new and successor funds, for which there is no restriction on marketing to a certain number of investors, the industry has evolved and the JPF may also be fit for purpose for such firms launching funds targeting under 50 investors. In this case, owing to the light touch regulation of the JPF compared to the full regulation of a collective investment fund, the JPF works well as a lower cost solution.

**Looking at the landscape more broadly, how have Jersey funds evolved over time and will there be much change going forward?**
The landscape is certainly evolving, we are seeing greater diversity in terms of promoters, their structuring choices and asset base and we expect this to continue. We also expect to continue to see more structuring nuances, more start-ups, club arrangements and joint ventures. In the current climate, we are agile and work with our clients to understand their needs.

**Are you anticipating business to be disrupted by the Covid-19 pandemic?**
At Ocorian, it is very much business as usual. We are focused on continuing to provide the highest quality service to our clients, as well as on the health and safety of our employees. Our global network of offices has taken proactive steps to ensure we are ready and available to offer the services our clients might need in these challenging times.

**What makes Ocorian stand out from other service providers?**
We adopt a partnership mentality when working with our clients, collaborating with them to provide a tailored approach that suits their specific needs whilst providing the highest levels of client service. We are agile and proactive in the implementation of AI and software robotics. Implementing operational efficiencies is key, not just for the administration of JPFs but for all aspects of administration.

**About Ocorian:**
Ocorian is a global leader in corporate and fiduciary services, fund administration and capital markets. With offices worldwide and customised, scalable solutions, their global network is designed to deliver exactly what their clients need, exactly how and where they need it.

*Visit ocorian.com to learn more or get in touch with Lauren via: +44 1534 507264.*

# COMMENT

## Sense and Sensibility

*Elliot Refson, Director of Funds at Jersey Finance discusses how Jersey-domiciled funds can provide stability and resilience in both the short and long term.*

If I had been writing this article a couple of months ago, it would have had quite a different tone.

Jersey finished 2019 in a bullish mood, with total fund assets rising to a new record high of more than £345bn, a rise of 8% over the year, with private equity in particular performing strongly, rising by almost a fifth to £136bn.

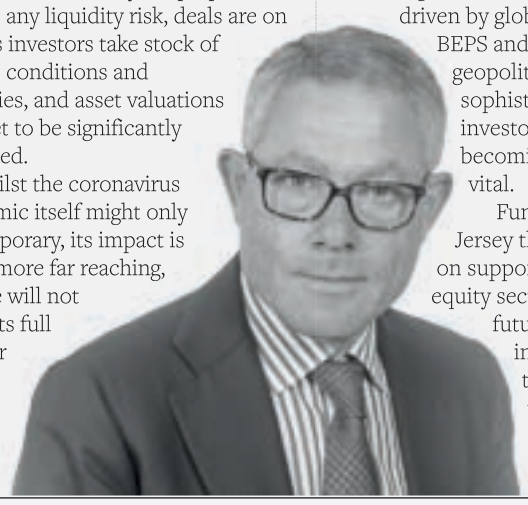
Global private equity trends also indicated a positive outlook for the year ahead, with Preqin figures showing a record 3,524 private equity funds in the market as of January 2020, collectively targeting $926bn and investors showing clear appetite to allocate to private equity over the coming years – 86% of investors intend to commit as much or more capital to private equity in 2020 as they did in 2019, according to Preqin.

### A new environment

There were clear reasons to be positive about the future, but, the situation we all find ourselves in today is starkly different to where we were two months ago. Right now, we are in the thick of a major humanitarian and economic crisis, and we are all in it together – the private equity industry is no different.

It is by no means business as usual and the repercussions for private equity are nuanced and multi-faceted. Globally, for instance, we are hearing of managers who are calling back capital to ensure they are prepared against any liquidity risk, deals are on hold as investors take stock of market conditions and strategies, and asset valuations look set to be significantly impacted.

Whilst the coronavirus pandemic itself might only be temporary, its impact is much more far reaching, and we will not know its full cost for some time.



**Right now, we are in the thick of a major humanitarian and economic crisis, and we are all in it together – the private equity industry is no different.**

### No Surprises

So where does this leave private equity specialist domiciles like Jersey?

Earlier this year, Jersey Finance undertook some research to explore the key drivers shaping the global alternative fund domiciliation landscape. It looked at how the alternative asset classes, including private equity, would continue to evolve, target new audiences and assets and respond to regulatory shifts, and what that all meant in terms of domicile selection.

Overall, it found that traditional models of fund structuring are being challenged and that the alternative fund domiciliation picture is becoming much more complex, driven by global regulation like BEPS and substance, geopolitics and market sophistication, with investor buy-in becoming absolutely vital.

Fund domiciles like Jersey that are focused on supporting the private equity sector globally in the future are increasingly having to be sensitive to these dynamics if they are to continue to stay relevant and add value to the sector.

Amongst its findings, unsurprisingly, the research found that the most important determinants in domicile selection include investor familiarity with the fund domicile and a jurisdiction's compliance with international standards. If a jurisdiction is respected by investors, then this gives managers confidence. Critically, investors want a stable jurisdiction with no regulatory, legal or economic surprises – and Jersey ticks those boxes. Being able to provide this stability and certainty requires a high-quality infrastructure, a tried-and-tested legal and regulatory environment, and a clear commitment to specialist expertise and high-quality service. From a Jersey perspective, it's why we saw such strong year-on-year growth in private equity activity last year – Jersey is a well-trodden path for the asset class and success breeds success.

Whilst this research was carried out in a very different environment just a few months ago and its findings have long-term resonance, as managers migrate towards centres that can offer safe harbours to support their cross border strategies in the face of complex regulation, geopolitical manoeuvring and market shifts, it strikes me that this same sort of stability should also be invaluable in the much shorter term.

Over the coming months, perhaps more than ever, managers will be relying on centres that offer sensible regimes, a no-nonsense approach to getting funds to market, and some much-needed certainty to manage, structure, and service their funds in a hugely challenging environment.

In Jersey, thanks to our sophisticated physical and digital infrastructure and our deep specialist private equity knowledge and capabilities, we are able to demonstrate considerable resilience at this difficult time and continue to service the needs of the global private equity sector. It's a message that should offer our private equity community some welcome reassurance.

At the same time, private equity has an opportunity to address the very real and very human challenges we face today, and the potential to play a significant part in helping to put capital to work where it is needed most. In Jersey we would certainly be an advocate for that, sensitive to the difficult period we are currently operating in, and ready to work with the private equity community to find and deliver positive solutions.

Looking to the future, all IFCs will need to be smart, pragmatic, and nimble as they respond to the key drivers shaping the alternative funds industry if they are to continue to be successful in the long-term and support a rapidly growing, and evolving private equity sector – and there's no doubt that the long-term picture remains strongly optimistic for private equity.

In the near term, though, this is a time for clear heads, sensible thinking and an approach that is sensitive to addressing our collective challenges and the needs of others. Private equity can play a part in that, and Jersey stands ready to support that drive.

# GP WORKSHOP

## How to free up capital to support portfolio companies

### In this issue's GP Workshop

*Martin Wright (left)* and *Parminder Basran (right)*, talk about how PE firms can free up capital to support portfolio companies.

**Martin Wright, senior partner at *JZ International***

The Covid-19 pandemic is much more far reaching than the last crisis in 2008, where there were very few cases of businesses which went to zero revenue overnight. In these challenging times, GPs who are more operationally focused and less leverage-driven, such as JZI, can drive the operational changes to enable portfolio companies to survive and thrive post a protracted period of low demand.

Portfolio companies need to be reducing costs wherever possible, that is in terms of direct costs, employees, eliminating all discretionary spending and delaying payments. The cash flow contingency plan needs to be robust to ensure businesses have sufficient liquidity to match the scale of disruption.

The uniqueness of the Covid-19 challenge is determining how long this plan needs to be for and what kind of recovery these sectors can expect, given the inevitable recessionary environment post Covid-19. Portfolio companies need to assess the kind of assistance they can get from the government such as guaranteed loan schemes and decide where GPs may need to contribute additonal equity.

#### Sourcing capital from banks

We have instructed our companies to draw on existing banking facilities. Early communication with lenders is key as they will have to arrange interest payment holidays, relaxation of amortisation payments and covenant suspension. Lenders will be focused on their existing credit exposures for some time and may be making some hard decisions about which companies to support and which may be too challenged.

#### Maximising opportunities

The crisis does produce opportunities, but strong operational guidance is needed to execute these given the scale of the challenge. As an example, a consumer brand portfolio company of JZI, Karium, shifted all its resources to Cuticura, a leading hand sanitiser brand, from some of the other brands in its portfolio such as suncare, which are being negatively impacted by Covid-19.

**Parminder Basran, managing partner at *VGC Partners***

VGC makes operationally led investments. We partner with founders from day one and are active in adding value to portfolio companies. The Covid-19 pandemic has meant that role has really intensified for us.

#### Minimising losses

The current situation has meant some revenue streams have been reduced significantly. We have a fitness business, where the gym and physical retail revenue is now zero. We aren't getting these revenue streams back for the foreseeable future, not until the government changes the lockdown laws. This has meant furloughing staff and, in some cases, letting go of part time staff. However, we also have some talent in those closed offices that have acquired skills and value that we don't want to lose.

#### Diverting resources

One thing we have been doing successfully is diverting resources into other areas of the business, including team members supporting the logistics operation. People still want and need to exercise. Customers who were attending fitness classes, are now doing that at home, often with the help of online platforms and classes. 80 per cent of the firm's revenues are online: selling training gear and equipment direct to the consumer. Obviously, we are maintaining that part of the business, but we've also been using the coaches that would normally be leading in person fitness sessions to generate really interesting online fitness content for our customer base. That is now being released to the e-commerce client base, often as a value add offer or something to push online classes. The business is also extending its home fitness product range on the e-commerce side, so there is a lot more home gym equipment being made available.

#### Preparing for trading to recommence

When things settle down, we anticipate that the work that we're doing now will have supported the customer base with their fitness goals through a difficult period. You've got to balance protecting the business versus the right ethical approach. You don't just want to get rid of everything, you need to maintain some momentum for when things get moving again.

## QUOTES

"The relationships we have with our banks is very positive. With our guidance, our portfolio companies have managed to get as much support possible to weather any upcoming volatility. The second thing is we have collated a lot of data and business financial support to allow our portfolio companies to best navigate problems throughout the virus. So that is how to deal with HMRC, how to deal with human resources. We pulled that together to support our portfolio companies. They are tapping into that, these third party resources have been really welcomed by them and should assist them in making it through this troublesome period."

**PHILIP RATTLE**
*Managing partner, August Equity*

"In these exceptional times where some companies have been suddenly forced to stop their activities, we are seeing an extraordinary movement of solidarity and unity among all parties from our portfolio companies' value chains. From senior management teams lowering their salaries voluntarily to lighten operational costs and show a strong commitment with our companies and their employees, to landlords willing to make significant reductions in their rents, even not charging any rent at all, until businesses are re-opened".

**LUIS SEGUÍ**
*CEO, Miura Private Equity*

"BGF invests from a significant evergreen balance sheet, so we don't share all of the same challenges as some traditional investment funds. We take a long-term view and, as we were created as a response to the 2008 global financial crisis, we have experience of weathering challenging times. We also have the scale and breadth to focus on our portfolio and to back new investments. Many are capitalised enough to sustain a downturn or period of closure, without any additional funding. It is, of course, not just about capital. We have set up cross working groups on sharing knowledge and experience within sectors, levering the breadth and scale of our platform. We continue to work with our network of non-executive directors, and have hosted in-depth webinars on key topics for portfolio companies – from cash management to CBILS and communicating through a crisis. BGF was created in challenging economic times and we are well placed to rise to new challenges."

**ANDY GREGORY**
*Head of investments, BGF*

# Q&A

# IAN HORSWELL

## Director, Fund & Corporate Services, JTC Jersey Funds

*Ian Horswell, Director of Fund & Corporate Services at JTC talks to Real Deals about how to set up a Jersey Fund and what the benefits are for private equity managers.*

**By** *Talya Misiri*

### Why would private equity managers choose to run their funds from Jersey?

Multiple factors attract private equity fund managers to Jersey. It is the largest of the Channel Islands, with a population of over 106,000, and has a track record and long-standing reputation as a major international finance centre. Almost one third of the AuM in Jersey is private equity assets, at $89.5bn. Jersey is recognised as an original 'first adopter' of international regulation, due to its robust offering of transparency and compliance, along with recognisable global standards.

Jersey has an attractive funds regime that offers managers a choice of several vehicles that are fit for their needs, ranging from the unregulated Jersey Private Fund (JPF) to highly regulated retail products. A fund in Jersey can include limited companies, limited partnerships or unit trusts.

The island also has a deep talent pool, with an extensive number of residents who have long track records and experience of working as non-executive directors for private equity funds.

### How do you set up a Jersey Fund?

Jersey can offer private equity managers the fast track regimes, whereby the regulators can authorise the GP and fund within 48 hours to ten days - depending on the fund product.

New clients to JTC can take comfort that, as an approved intermediary, the KYC process is only carried out by JTC and not duplicated by the bank when setting up the fund's bank accounts. It is worth noting that a company can be set-up in a day in Jersey and once a company is live, a bank can provide an account number. This is the other way around in Luxembourg, which does lead to a slower launch process.

An example for setting up a vanilla structure would be creating a Jersey Limited Partnership as the fund vehicle. The General Partner of the Jersey LP would be a Jersey private limited company and a third entity would be the investment manager to the Jersey GP.

Traditionally there will be an offering document or private placement memorandum ("PPM"), which would usually be drafted by onshore lawyers. It is worth mentioning it is not a requirement for a Jersey Private Fund to have either an offering document or PPM. Once the above process has been completed, the administrator (JTC) would hold an inaugural Board meeting with law firms to formally launch the fund.

### How does the investment process work in Jersey? How is this different to Luxembourg?

In Jersey, the onshore Investment Advisor ('IA') makes a recommendation for portfolio acquisition, financing or divestment to the General Partner in a Jersey LP/GP structured fund. However, in Luxembourg, the IA makes a recommendation for portfolio activity – for example, an acquisition, divestment or financing - to the authorised Alternative Investment Fund Manager (AIFM), acting in the capacity of portfolio manager.

The AIFM is then required to consider the recommendation unless a delegated portfolio manager is appointed. The delegation model adopted by some AIFMs allows the portfolio management to sit with the fund sponsor, if they are licensed to do so. The General Partner will then receive formal notification of the AIFMs approval of such action and implement the decision thereafter.

### What are the benefits for a first time fund manager?

There are many reasons for a first-time manager to opt for Jersey as 'home' for its first Fund. For me, the experience and skillset in the island is outstanding. Our team have launched many first-time funds and have hand-held promoters through the process on many occasions. In addition to new launches, we are vastly experienced in the end of a fund life as well as launching Fund II, III etc.

Costs vary across jurisdictions and traditionally Jersey comes in more competitive than its EU counterparts, not only with regards to the set-up but for the ongoing running costs too.

Private equity managers looking to access European investors within the EU can use the National Private Placement Regime (NPPR) to market their funds to EU investors. Adherence to parts of the Alternative Investment Fund Managers Directive (AIFMD) and regulations will be required, should the fund successfully close with EU investors.

### How have Jersey funds been impacted by the Covid-19 pandemic? How is JTC monitoring the impact?

Jersey, like all global fund centres, has been affected by the spread of Covid-19, and our Government and Regulator have been proportionate and pragmatic. Where a company incorporated in another country has been a tax resident in Jersey due to its control and management functions being on island, the Comptroller would consider any activities carried outside of the island to be temporary and this would not affect the tax residence status.

JTC would also encourage our clients to add additional non-executive directors to their board as the UK Revenue has remained silent on substance, to ensure a majority of board members are offshore we recommend additional Jersey residents are added for the short term, until the end of the pandemic. While a pandemic is never good, we are continuing with our business continuity plan. ●

# PREPARED FOR BATTLE

How first time funds are geared up to tackle headwinds of Covid-19 and a potential market dislocation.

*Talya Misiri writes*

It certainly hasn't taken long for Covid-19 to have an impact on private equity. The current economic climate has meant that more and more deals are falling through the cracks.

According to Investec Corporate and Investment Banking, the number of failed auctions hit a high of 282 for the five years leading up to December 2019; in comparison to 166 in 2017. With this current environment, the numbers are likely to continue on an upward trajectory.

Fund managers are now in a position where they are considering whether or not they can withdraw from a deal process and instead focus on their current portfolios. CMS partner Stefan Brunnschweiler told *Real Deals:* "More and more dealmakers are looking at whether or not they can walk away from a deal and not close a transaction.

"For most companies, M&A is not a priority right now and they are focusing on making sure they are keeping the engines moving by focussing in particular on liquidity."

However, this is not the case for all dealmakers. Where the current climate is not an ideal environment for many mid market firms, first time funds (FTFs) are expressing greater enthusiasm.

## ARMS RACE

For both special situations managers and FTFs, the private equity universe can be seen to offer attractive opportunities at present.

Where larger funds are preoccupied with managing their portfolio companies and ensuring businesses do not experience consequential losses, some FTFs are scouring the market for deals.

"We are strong believers that these are the times to invest. We can potentially secure better assets that wouldn't be open to us in bull markets," Will Stamp, co-founder of Inspirit says.

Unsurprisingly, predictions by the International Monetary Fund (IMF) show that the global growth outlook for 2020 is negative, noting that the world economy is now in a recession that is at least as bad or worse than the Great Finance Crisis of 2008. Though a recovery is projected in 2021, if valuations follow a similar downward trajectory as that seen during the GFC, then fund managers are likely to be able to pick up assets at significantly reduced prices, thereby boosting returns in the long run.

FTF managers that had closed their funds prior to the outbreak of the Covid-19 pandemic and the global recession are likely to be in a position where they are able to take full advantage of the low valuations for attractive assets. They have both the time and money to source opportunities.

Nonetheless, Inspirit co-founder Albert Farrant advises: "You need to be very careful with the deals that you choose to pursue and the funding structure you've got in place and the various scenarios that you set the business up to withstand. But, we definitely are open to do deals immediately as long as we look through that lense."

Moreover, FTFs may have a step up on their more established peers when it comes to availability of capital. As large and mid market firms will have larger portfolios to manage through this time, their capital requirements are also likely to be larger.

**"Being a FTF, you have a younger portfolio that is able to absorb this hiatus a little bit easier than a mature portfolio that was looking to realise assets this year and next."**

In comparison, with a smaller portfolio, FTFs are more likely to be able to meet the needs (both financial and operational) of their businesses.

Speaking to *Real Deals*, Apiary Capital managing partner Mark Salter says: "We are well positioned if any of the portfolio has a liquidity challenge. I think where we're relatively fortunate is that we only have one business in the portfolio that will need a bit of liquidity through this. It's a good company and we're happy to support it through that process."

LPs are also well aware of the advantages that FTFs have at present and are willing to assist with committing more capital also. A FTF told *Real Deals* that in an update call with its LPs, the firm also had investor support for backing bigger deals. If they arise, the LPs were keen to provide additional capital via co-investments to secure deals.

## AT EASE, SOLDIERS

When considering the impact of the global pandemic and recession on the private equity universe, extended hold periods is also a key feature. This can be seen as another area where FTF investors are in a fortunate position.

Salter says: "Being a FTF, you have a younger portfolio that is able to absorb this hiatus a little bit easier than a mature portfolio that was looking to realise assets this year and next."

Indeed, FTFs have the benefit of time on their hands, operating in an asset class that has long term horizons. Where these funds' portfolio companies are likely to have been held for around 12-18 months maximum to date, they are not likely to be as largely impacted.

"Most of our portfolio is less than 12 months old, so you can absorb a slightly extended time horizon and come year 3, 4 and 5 they would have caught up to where we thought they would be," Salter says.

Nonetheless, these funds are not invincible and managers are aware that they may need to allow for more time before exit to realise attractive returns.

> We are strong believers that these are the times to invest. We can potentially secure better assets that wouldn't be open to us in bull markets.

Farrant says: "Probably to be able to do well out of it [deals made this year], you would need to hold assets for 5 years rather than 3. It's a process, a bit like in the stock market, if you buy now, it may be worse in a year than it is now, but in 5 you're likely to do well."

## BATTLE EXPERIENCE

While FTF managers have time and money on their side, however, they may not be completely set for battle.

Due to their very nature, some FTFs won't have experience navigating through a financial crisis, so could be significantly impacted.

Farrant highlights: "Some FTFs, if people are a bit younger, may not have been investing through the last downturn, whereas an established fund would have at least a corporate memory of that. Individual dealmakers may not have been senior at that point."

Getting good advisers on side at this time will also be difficult, as in times of uncertainty and unprecedented scenarios such as this, established funds will also be turning to their advisers and lawyers for assistance. FTFs may also have less allies here.

Stamp says: "I would add the bigger funds will have much deeper pockets when it comes to being able to lean on advisers, particularly in the current environment, where you might need help with your portfolio companies. For a FTF, if you've got one or two investments, you might not have the same capacity to spend money on advisors in a way a big fund may be able to."

He adds: "The same principle applies to the best chair people, some of them often sit on multiple boards and securing more of their time as a FTF may be difficult if they spend most of their time on bigger deals where there is potentially more at stake."

With this, teams will also be stretched. Newer funds are likely to have smaller teams to navigate business at present, and so there may be the financial and arguably operational bandwidth constraints too.

Finally, fundraising at present is certainly difficult, if not impossible in some circumstances. For new managers that are raising a fund, it will be hard for them to close commitments. This is due to limitations on travel, fewer relationship building opportunities and the fact that LPs allocations to asset classes are shifting regularly due to shifts in the stock market, and overall uncertainty.

Certainly this will be a trying time for FTFs, but also an opportunity for them to prove that they are able to come out of the crisis stronger.

Farrant notes: "For a FTF manager the stakes are higher, because if you're a larger fund, you can afford to have a few bad deals or one of them that doesn't perform well because your track record is strong enough that you can bear it, whereas as a FTF manager, you can't afford that. A couple of bad deals is much more noticeable when you're new than when you're an established operator."

Where several studies have shown returns on first-time funds are higher than other funds, time will tell whether FTFs will come out on top when the Covid-19 battle comes to an end.

# COMMENT

# Pre-due diligence: Find now or pay later

*Andrew Probert, Managing Director, Transaction Advisory Services at Duff & Phelps and Tasneem Azad, Managing Director, Disputes Consulting, discuss why the UK is seeing a huge increase in business for pre-diligence work.*

Due diligence for private equity firms is never entirely wasted. For most, the precautionary principle applies; rush in and you repent at leisure.

Nevertheless, the costs are substantial, and for deals that don't ultimately complete, firms have little to show for it. Where they're simply outbid, they cannot even claim a lucky escape. Due diligence might be essential, but it's not always efficient. Increasingly, PE buyers are looking for ways to improve it. Interest in doing so is likely to grow for several reasons.

Most prominently today, interest in diligence has risen from the impact that the outbreak of coronavirus is having on markets and deals. The current crisis has highlighted to prospective buyers the necessity of the need for diligence, especially in the areas of supply chains, revenue streams and cost base.

Another is the fierce competition for deals. While we will temporarily see a slowdown on deals as the crisis unfolds, we can't ignore the high note we ended on in 2019. Worldwide, PE firms ended 2019 with a record $2.5trn in dry powder. That's ramped up the number of funds competing for attractive assets (not to mention prices).

With perhaps a dozen or more interested funds in an acquisition, the majority is inevitably disappointed. Those who have gone so far in the process as to have conducted the full due diligence process, covering finances, accounts, tax, regulatory and operational issues, among others, are also left significantly out of pocket. Unsurprisingly, some have begun to question if all these costs need be incurred.

### Over and done with

While due diligence cannot (and should not) be avoided, parts of it can be displaced. One answer to the growing risk of deals failing to reach completion is to reduce the due diligence that occurs during the evaluation and execution phases of the deal by shifting this elsewhere.

**If companies can identify barriers to a deal early... they can avoid the large majority of due diligence work they would otherwise undertake.**

For some, this could mean moving more of the work to post-deal, which we commonly refer to as the optimisation phase. Where there are uncertainties around issues such as working capital, for example, a suitable mechanism can be included for post-deal adjustments.

If the acquisition fails to complete for some other reason, this work will never need to be undertaken. PE buyers can therefore postpone some of the expense of due diligence until after they know they will see a return.

An arguably more widely applicable approach, however, is to engage in what can be termed "pre-due diligence." The idea is a simple one: if companies can identify barriers to a deal early ahead of the release of the information memorandum, such as a company's exposure to global crises, they can avoid the large majority of due diligence work and expense they would otherwise undertake.

Pre-due diligence is, necessarily, much less comprehensive than a full due diligence process. But it is also much cheaper. It relies in large part on public domain sources, focusing less on the financial statements and more on reputational, environmental, regulatory or digital risks. It may be drawing on employee reviews to identify cultural concerns, for example; reports suggesting data privacy risks; regulatory breaches; or updates on aggressive accounting practices in the industry in question.

The objective is not to thoroughly vet the target, but rather to identify red flags that warrant further investigation or potentially abandoning acquisition plans at the outset.

### CMA involvement

Uncertainty over the future direction of the UK's Competition and Markets Authority's (CMA) involvement has fuelled further interest over how due diligence costs might be controlled, which has led to a further requisite for pre-due diligence work.

Within the European Union (EU), competition rules are harmonized to ensure that those involved in M&A can "one-stop shop" in jurisdictional terms, when notifying relevant authorities. Thresholds for review are consistent across the trading bloc: deals where the enterprise being taken over has a turnover of £70m (€100m in the Eurozone) or where the businesses have a combined market share of 25%.

For the duration of the transition period this year, the UK's arrangements remain largely unchanged. From 2021, however, the CMA will chart its own course. There are indications that the body will review its powers here.

One is that the CMA has dramatically increased its headcount since the EU referendum by 40%. Another is that it has publicly anticipated a significant increase in the number of M&A investigations—up 40 or 50% on the number since it was founded in 2013. Finally, CMA chief exec Andrea Coscelli's own public agonising over whether certain sectors such as technology have seen "underenforcement" to date.

It would not be surprising, then, if in the future the CMA were more active in scrutinizing and blocking M&A, or in requiring structural remedies such as enforced divestment.

### Pay now, save later

Even though the pre-due diligence approach is light touch, it can deliver profound value. Most obviously, it may uncover concerns that avoid the necessity of continuing to full due diligence—saving the majority of the work, and perhaps 80-90% or more of the expense. Even if no red flags are raised, though, it's not a sunk cost: the work simply feeds into the full process, providing reassurance or identifying areas requiring further investigation.

Pre-due diligence is, in other words, work that should be done at some point regardless. The only question is whether it is done before or after commitment of significant expense on a deal that may never come to pass. Recent events around the world, for example, have emphasised the fragility of globally reputable business models.

It is impossible to predict all variables within the process, and due diligence is never a negligible process, but by separating key parts of the process, the large expenses can be minimised.

# Q&A

## TAKING STOCK

### Ex-Ante: Randel Freeman, Roger Buehler and Mike Tuke

*A group of former hedgies believe private equity would do well to turn to the public markets as a means of riding out the storm.*

**By** *Alice Murray*

**Ex-Ante Partnership is run by experienced hedge fund managers Randel (Randy) Freeman, Roger Buehler and Mike Tuke. The trio believe there is huge value to be found in European public companies, and are keen to partner with private equity houses to share their expertise in hedging out risk factors, engaging with other shareholders, developing relationships with management teams and ultimately achieving robust negotiating positions.**

**What's your main focus at Ex-Ante?**

*Roger Buehler:* We focus on where our expertise lies – we seek deep value, long-term orientated and catalyst driven opportunities. Our investment style combines traditional value, shareholder activism, event driven and private equity investing, essentially creating value through a shareholder engagement approach.

*Mike Tuke*: Typically, the opportunities we pursue require us to engage with other stakeholders and create a consensus on the best path to generating value. But inevitably you're at the will of the markets with this approach, and there are things you can control and things you can't; hence, we apply hedging strategies to mitigate risks we do not feel comfortable with.

*Randy Freeman:* We stick to our core market, which is Europe, and we're looking for good businesses which are temporarily trading at a discount to their inherent intrinsic value, which have identifiable stress factor(s), where we can use our years of experience in shareholder engagement to create value.

**What's your take on the current situation? Are there more opportunities?**

*Freeman:* It's all very fresh. Before this current crisis came to light, we had a very good sense of the market, the valuations and our targets. In terms of adapting, nothing will change our core philosophy, but the number of opportunities will naturally increase. The markets had a very strong run for many years, which at times made it more challenging to find good companies trading at compelling valuations.

However, Europe was trading at a big discount compared to the US, so there was already relatively more interesting value to be had. Some of the key drivers behind that discount were MIFID II (reduced sell-side analyst coverage) and the shift towards passive investing and index funds (many interesting companies which fell outside of indexes and/or ETFs were getting overlooked). Now, there's a whole new opportunity-set that wasn't there before.

> Proactive investing in public markets, with substantial sticky capital and appropriate duration will lead to substantial upsides for PE investors.

**How can private equity adopt this style of investing?**

*Buehler:* We've seen private equity involved in take-privates, but we so far have hardly seen them buying minority stakes. The environment has clearly changed, and we think PE is well placed to invest in public companies that are receptive to outside support and where they themselves can create value as minority holder. Buying an equity stake should be viewed as a stepping stone to establish a dialogue and discern if there is a role to play with the company or other like-minded shareholders – maybe via provision of capital, access to carve-outs or even take-privates. Taking proactive equity stakes in such companies is less likely to be seen as controversial (relative to aggressive distressed debt strategies) in the current climate when governments are trying to protect domestic public companies.

Hence I think stake buying is a way of creating additional proprietary deal flow in companies they may potentially like to fully own and where they believe to have an 'edge' - if another investor ends up gaining control, then they will still have benefited from an appreciated share price. A further advantage of stake buying is that PE investors can arbitrage public and private market valuation multiples – they can buy stakes at discounted minority prices and work towards selling these stakes at a premium on a full valuation. We believe that proactive investing in public markets, with substantial sticky capital and appropriate duration will lead to substantial upsides for PE investors.

**Do you think private equity will more actively participate in the public markets as a key deal source over the next six to 12 months?**

*Freeman:* I've always thought they should be more active in the public sphere. Given the amount of new capital they've raised, and with the private opportunity-set (at least pre-crisis) becoming more expensive, it seems like a logical extension of their very successful core business model. We think there are compelling opportunities right now in the public markets for long-term investors to take beach-head stakes in public companies which can either lead to eventual take-privates (resulting in lower in-prices) or could represent profitable investments in their own right.

*Buehler:* Perhaps the current crisis will now throw up deals that are too good to ignore and we will see some players pursuing new avenues to seize public equity opportunities.

**What's your top tip for private equity right now?**

*Freeman:* We are not sure they need tips from us, but we believe PE firms should take advantage of the opportunities in the adjacent public markets by employing their wealth of expertise with possibly a somewhat amended approach. We are happy to explore such opportunities with them and help them navigate through the idiosyncrasies of public market investing.

# News

## The Big Issue: New BVCA chair leads support for national treasure

Amid a number of positive initiatives that the industry is participating in during these uncertain times, BVCA's Neil MacDougall is contributing his weekly commute expenses to The Big Issue.

**By** *Talya Misiri*

Silverfleet chair and the new chair of the BVCA, Neil MacDougall has initiated continued funding support for The Big Issue.

The Big Issue was launched in 1991 by Gordon Roddick and John Bird in response to the growing number of rough sleepers on the streets of London. The two believed that the key to solving the problem of homelessness lay in helping people to help themselves. Vendors buy their magazines with their own money and sell them at their own profit or loss.

To complement the self-help ethos of The Big Issue Magazine, The Big Issue Foundation was established in 1995 to link vendors with the vital support and services which help them address the issues that led to and have arisen as a result of their experiences.

Twenty-five years on from its launch, The Big Issue vendors now come from a variety of backgrounds and face the myriad of problems associated with poverty and inequality.

The magazine is read by over 400,000 people across the UK and circulates 83,073 copies every week.

### TACKLING COVID-19

Now, however, the Covid-19 pandemic that has sent the UK into lockdown, has meant that the publication's incoming revenue has dropped to zero. To help the national treasure, MacDougall has announced that he will donate what he is saving from his daily commute expenses directly to the business.

Speaking to Real Deals, director at The Finance Lab, Said Business School and non-executive director at Big Issue Invest (The Big Issue's social investment arm), John Gilligan said: "We are trying to find out how to survive during a process where we have zero money and how to come out at the other end."

The Big Issue is asking those who can afford to, to consider subscribing to the magazine online or gifting what they can to keep the business and its vulnerable street vendors going through this crisis.

Silverfleet partner Ian Oxley told Real Deals: "As you can see in the national media, the charity sector is under great strain currently. The Big Issue is a social enterprise, which is wholly reliant on trading income, and most of its revenue has been cut off overnight so needs our help.

"The private equity industry has highlighted this cause through the BVCA, encouraging members to subscribe digitally or give the cost of their commute via The Big Issue website. Obviously this will help the organisation to keep helping it's "micro-entrepreneurs" right now when they need help most."

The publication will reach its 30th anniversary next year and funds are most critical in times like these, where its employees are among the most vulnerable.

The Big Issue Foundation assists with sourcing housing and accommodation and setting up bank accounts for the business' employees. However, it requires additional donations to be able to do this.

To gift to The Big Issue, visit: www.bigissue.com/support-the-big-issue.

## GOOD NEWS

### Business fee removal

*Umbra Capital Partners' portfolio company Hastee has removed business fees for its services for over 100,000 workers. Hastee, the earnings on demand tech platform is enabling over 100,000 workers including those in the NHS, care home and manufacturing sectors to access their wages ahead of pay day, free of charge.*

### Dunedin morale boost

*UK-based private equity firm Dunedin is going above and beyond to keep the lines of communication between staff and portfolio open. In an extra effort to boost morale, the firm has also introduced a weekly, non-work related, call for staff to check in with each other.*

### Start-up support

*In the venture community too, VC's are rushing to the rescue. UK-based VC Antler has launched a new initiative to help find and fund startups who are providing solutions during the Covid-19 epidemic. Antler has invited startups tackling the outbreak to apply for funding and up to five 'winning' startups will get a $100k investment.*

### Eurazeo Solidarity Fund

*Eurazeo has launched a €10m solidarity fund financed from its cash holdings and by donations from the Supervisory Board, the Executive Board and the Executive Committee members. Eurazeo's employees who wish to do so will also contribute at their discretion.*

*Eurazeo has also revealed how its portfolio companies are working to combat Covid-19.*

*For example: three of its portfolio companies are working to support French healthcare services.*

*Seqens, has increased its production of hydroalcoholic solution and medicines that contribute to developing a treatment against Covid-19. Peters Surgical has increased its production of catheters to treat additional patients in respiratory distress.*

*Linvosges has reopened its workshop in Géradmer to manufacture protective masks free of charge for hospitals and retirement homes.*

PROFILE

# JONATHAN BLAKE

*Real Deals* spoke to the pioneer of private equity law, *Jonathan Blake,* about the maturation of the asset class, current trends in fund formation, and how the ongoing Covid-19 crisis will shape the future of the industry. By *Sam Birchall*

For someone who claims he never wanted to be a lawyer, Jonathan Blake has carved out the sort of career that leaves little doubt he is in the right job. Known by many as the 'father of fund formation', he was the first adviser elected into the British Venture Capital Association's 'Hall of Fame', and is widely credited as having set the template for the private equity LP agreement in Europe; a model that has served private fund managers, as well as law and accounting firms for the best part of a century.

At the start of this year, Blake joined Herbert Smith Freehills as head of international private funds strategy after three years at O'Melveny and Myers, before which, Blake established and led the funds practice at SJ Berwin for nearly 35 years.

Despite this, Blake told *Real Deals*: "I was never one of those people who knew what I wanted to do from childhood. I never wanted to be a lawyer, in fact I tried to give it up a number of times. If anything, I wanted to be a scientist. But, it was a bringing together of my various ambitions to get involved in setting up SJ Berwin." The rest, as they say, is history...

### NOW AND THEN

"My introduction to private equity began quite early on at SJ Berwin, although back then it was just called Venture Capital." Blake said.

"In 1982 I got involved in a very early management buyout for an ailing division of a battery company. This was how private equity started off in weakness rather than in strength, which is what the early buyouts were like. This is the sort of work I was drawn to; working with ordinary people and ordinary businesses. Of course, private equity has come a long way since then."

Indeed, the industry has since undergone a dramatic rebranding. "I don't think you could say that buyouts are mainly made up of companies doing badly anymore; they tend to be doing reasonably well in the first place. Private equity has become bigger and more prevalent. There is more liquidity and more opportunity than ever before to realise both investments in private companies and investments in funds, with private equity investment becoming seen as a separate asset class and LPs adopting a diversified asset class approach to investment."

Blake said that a clear indicator of just how far the industry has come is the impressive growth of the secondaries market.

"Once a niche area, the secondaries market is quickly becoming a well-trodden path to generate more liquidity; initially to meet LPs liquidity requirements and portfolio management and now by GPs, with GP-led restructurings becoming increasingly prevalent, a strategy that was unheard of when private equity first started out."

### MOST MEMORABLE DEALS

"When I think of some of my most memorable deals, two come to mind. The first is the small buyout of a battery company in 1982. For me it was the deal that made me realise I wanted to focus on private equity. It was a business in distress, which were the kind of deals private equity did back then. As soon as I finished work on that, I went straight to my boss and asked to work solely on this sort of work.

"The second most memorable deal came shortly after that. I was asked to set up a Venture Capital Fund onshore and suggested the use of a limited partnership and then got involved with getting the structure approved by the government and tax authorities including the carried interest. This, understandably, was a game changer."

### FUND FORMATION

Speaking on the current trends in fund formation, Blake said: "We were seeing a resurgence of first time funds although it is not clear whether this is continuing since Covid-19.

"There is also more polarisation between funds that do very well and others that are unable to hit maximum targets. While there has always been polarisation, it is becoming steadily more apparent and the Covid-19 virus will likely make it worse. Although this is not necessarily a bad thing as it allows strong funds to perform well."

Perhaps most notably, the industry's expansion has soared through fundraising. Mega-funds continue to dominate the market but there are fewer larger funds. "The momentum that mega-funds have makes them more straightforward to raise than mid-sized funds. If investors have their eyes on a multi-billion fund and, at the same time, a smaller one, the investors are going to naturally pay more attention to the larger one. This makes it difficult for those mid-sized range funds to get air time with LP's," Blake said.

The emergence of more unconventional fund terms is another standout theme. "Longer term funds and longer investments are a big trend right now. They need to be held for a longer time to realise their full potential. The average life of a ten year fund is now 15 years."

Blake said that terms and conditions are also becoming less standardised and there is more deviation from standards, particularly in key areas like distribution waterfalls, GP removal, key man protection, indemnification and carry clawback; a sign that the industry continues to evolve and expand.

### A KEY ROLE TO PLAY

The dramatic upending of the Covid-19 crisis will have seismic impacts for private equity. But Blake said he is quietly optimistic that the strength of the asset class means it can withstand the global shutdown. In fact, in some ways the current situation marks a throwback to the 1980's, in which the industry has found itself in a position to help businesses in distress. This, according to Blake, is what private equity is rooted in.

With buyout firms worldwide pulling in a near record amount of capital during the first quarter of this year, private equity funds are ideally placed to help with some of the problems brought on by the pandemic.

Indeed, many firms have already set to work doing just this.

"Part of the attraction of law comes down to being in a position to construct new ideas that face any challenges that come our way. If anyone came to me and said they were bored in law I would tell them they were probably doing their job wrong," Blake said.

# Deals in brief

### HEALTHCARE, SLOVENIA

**Target:** DC Bled

Out: ARX

ARX Equity Partners has completed the sale of its investment in Slovenian healthcare services provider, Diagnosticni Center Bleddoo (DC Bled). The exit has generated a 3.6x return multiple and an IRR exceeding 25%.

Headquartered in Bled, DCB is the largest private healthcare service provider in Slovenia. The company delivers comprehensive outpatient and inpatient medical services across six locations.

ARX acquired DC Bled in 2015 to develop its business and specialist medical capabilities as a platform to further consolidate and grow its market position in the Slovenian diagnostics sector. During ARX's holding period, the company doubled in size, doubled in revenues and completed four strategic add-ons of smaller clinics.

DCB has been acquired by a joint venture involving Sava Re and Triglav, two of Slovenia's largest insurance companies. ARX classifies Slovenia as one of its core Central European focus markets.

### HEALTHCARE, AUSTRALIA

**Target:** ILS

In: Riverside

CF: KPMG

L: Herbert Smith Freehills

T: Deloitte

C: EY-Parthenon

Riverside has invested in Independent Living Specialists (ILS), to support the continued growth of the mobility retailer.

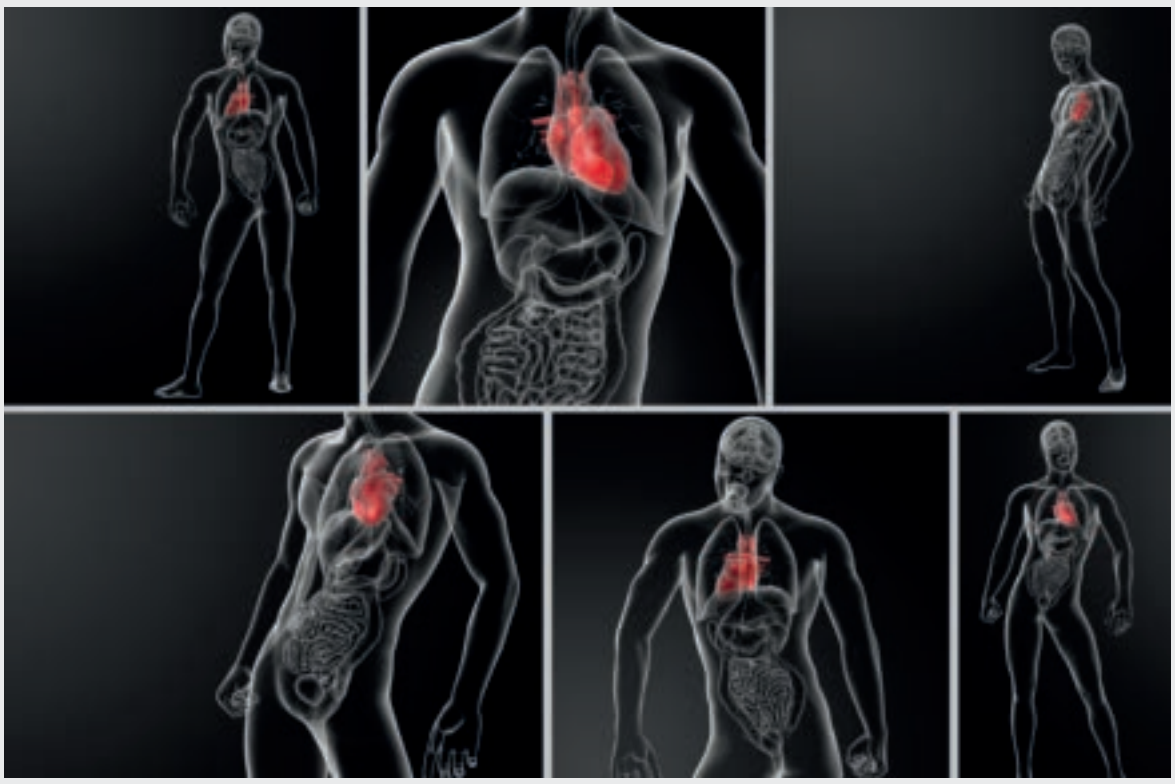
Sydney-based ILS was founded in 2004 by co-CEOs Ian Farquharson and Peter Reid. Its products include mobility devices, specialised furniture and personal care equipment, which are sold through a clinically trained field force, a network of more than 20 retail showrooms and a website.

Riverside's support will accelerate the national expansion, both organically and through bolt-on investments.

Global lower mid-market investor Riverside has experience in healthcare and value added distribution, having invested in more than 380 platforms and add-ons across these sectors.

Working with Riverside partners Nick Speer and Steven Spiteri on the deal was vice president Nicholas Pejnovic and associate Paul Tran from Riverside's Melbourne office.

Advising on the transaction was KPMG, Herbert Smith Freehills, Deloitte and EY-Parthenon.



## Investcorp acquires Avira for $180m

*Investcorp Technology Partners has agreed to acquire German cybersecurity software Avira for $180m.*

*It is Investcorp Technology Partners' third investment in the DACH tech sector in the last 18 months.*

*Avira, founded in 1986 by Tjark Auerbeach, develops anti-malware, threat intelligence and IoT solutions for online identity, finances, and private data.*

*Investcorp's investment will accelerate Avira's growth in the consumer and OEM (original equipment manufacturer) market segments. The firm's other investments from its $400m Fourth Technology Fund include: Ubisense's SmartSpace, softgarden, Calligo, Ageras and Impero.*

### MANUFACTURING, SWITZERLAND

**Target(s):** Sirag, Univer and Uniprod

In: Halder

Halder has acquired a majority stake in Sirag AG, Univer AG and Uniprod AG through portfolio companies Drumag Fluidtechnik GmbH and EPH Elektronik GmbH.

The three acquired Swiss companies have specialised in high-quality solutions in pneumatics and process technology for over 30 years. They design and manufacture pneumatics tools, delivering customised system solutions, special valves and control blocks. Combined, Sirag, Univer and Uniprod together generated sales of €15m in 2019.

The acquisitions will be integrated with Drumag and EPH in Valeta GmbH. Together the companies generate a turnover of around €37m and employ around 200 staff in Germany, Switzerland and Lithuania. The companies have over 2,500 customers in the mechanical and plant engineering, aviation and medical technology industries.

Othmar Seiler, partner and chairman of Univer, will lead the three companies and will further develop them within the overall group.

Halder has been a financial investor in the German-speaking region since 1991, it has invested in 42 medium-sized companies. Halder is currently investing its sixth fund.

### TECHNOLOGY, US

**Target:** Accion Labs

In: TA Associates

TA Associates has made a strategic growth investment in Accion Labs, a digital-focused software engineering company specialising in emerging technologies. Accion is a leader in helping technology companies and enterprises leverage new technologies. Accion's expertise is in advanced UX, artificial intelligence and machine learning, big-data analytics, migration to cloud/SaaS and re-engineering of legacy platforms.

Accion has more than 2,600 engineers across 14 offices within the U.S., Canada, the UK and Asia-Pacific. The company's clients include software product companies, e-SaaS firms, e-business organisations and enterprises undergoing a digital transformation in industries like healthcare, financial services, technology and fintech.

Aditya Sharma, principal at TA Associates Advisory and Dhiraj Poddar, managing director at TA Associates Advisory, will join the board of directors of Accion Labs.

As part of the transaction, K&L Gates LLP, Lexygen India, KPMG and Avendus Capital, Goodwin Procter LLP and EY served as advisors.

### RETAIL, UK

**Target:** Emma Bridgewater

In: BGF

CF: Mazars, Lexington Corporate Finance

BGF has made an £8m investment into iconic British ceramics brand, Emma Bridgewater. The move will support further growth in the UK, as well as international expansion.

Established in 1984, Emma Bridgewater designs and manufactures hand-decorated pottery and a wide selection of home products. The business sells its products through its website, own stores, as well as wholesale customers such as John Lewis and Next.

The Emma Bridgewater brand has also diversified into glassware, stationery, picnic-ware, wallpaper and fabrics. In 2019, revenues grew to over £20m, with EBITDA of over £2m.

As part of the transaction, Freeths LLP and Mazars advised BGF. Lexington Corporate Finance, Michelmores LLP and Bishop Fleming advised Emma Bridgewater.

### INFRASTRUCTURE, SWEDEN

**Target:** NVBS Rail

In: Segulah

Nordic private equity firm, Segulah, has agreed to acquire a majority stake in NVBS Rail AB.

The investment will support the company's growth. NVBS founders

**KEY:**
D DEBT
MZ MEZZANINE
NC NEWCO
B BROKER
CF CORPORATE FINANCE
L LEGAL
A ACCOUNTING
C COMMERCIAL
T TECHNICAL
MG MANAGEMENT
I INSURANCE
P PROPERTY
EV ENVIRONMENTAL

# A round-up of deals from the past few weeks.

David and Daniel Skalin and their minority shareholders will retain a significant shareholding in the company.
Founded in 2012, by the Skalin brothers, NVBS is a Swedish rail infrastructure business with a service offering for rail-related projects and rail maintenance. The company is based in Stockholm, Sweden and has around 100 employees and serves customers in both the public and private sectors.
In 2019, the company generated revenues of around 330m kr (Swedish Kroner).

## IT, SWEDEN

**Target: PDS Vision**

In: CapMan

CapMan has sealed its debut deal from the firm's eleventh mid-market buyout fund. The Finnish private equity firm will acquire a majority stake in Swedish industrial software developer PDS Vision Group.
It is the first transaction made by CapMan Buyout XI, which launched in 2019 and has raised €170m. The investment will support PDS Vision's expansion through attractive organic growth opportunities and acquisitions.
PDS Vision is headquartered in Sweden and has operations in Finland, Denmark, Norway, Germany, Great Britain and the USA. The group has a strong track record of growth with 20 per cent CAGR over the last decade.
The funds managed by CapMan Buyout invest in medium-sized, unlisted companies in the Nordic countries.

## TECHNOLOGY, GERMANY

**Target(s): Beck et al., binary, and direkt gruppe**

In: Waterland
A: EY
C: Boston Consulting Group
D: Clearwater
L: Hengeler Mueller

Waterland Private Equity has acquired three IT service providers in the German market: Beck et al., binary, and direkt gruppe. The three companies will form a new platform serving the rapidly growing market for managed enterprise cloud services.
The new group will offer a comprehensive range of services throughout Germany, Austria, Switzerland and beyond, offering end-to-end solutions for a client base of businesses and enterprises, as they digitalise and transition to the cloud.
Waterland has acquired company stakes from the respective founders of the three companies, all of whom will reinvest significantly into the new group and remain on board in management positions.
With this new platform, Waterland is addressing the shifting environment within the growing market segment for managed enterprise cloud solutions.
As part of the transaction Waterland was advised by Boston Consulting Group, Hengeler Mueller, EY and Clearwater.

## HEALTHCARE, NETHERLANDS

**Target: TPSC**

Out: Main Capital
L: Houthoff and Sidley Austin LLP

Main Capital has sold its stake in The Patient Safety Company (TPSC) to symplr.
The Patient Safety Company provides an online quality & risk management platform that addresses healthcare labour regulatory requirements and assists in managing patient outcomes.
Founded in 2003, The Netherlands-based company allows customers to manage data, track patient safety, incidents and manage staff. Hundreds of thousands healthcare professionals utilise the software. It is used in 500 healthcare facilities around the world.

## TECHNOLOGY, CHINA

**Target: Leyou Technologies**

In: CVC

CVC is reportedly reducing its offer to acquire gaming company Leyou Technologies, alongside iDreamSky. A previous offer initially valued Leyou at $1.4bn; CVC and iDreamSky are seeking to significantly lower this figure, Deal Street Asia has reported.
Tighter funding conditions and volatility in the market in the wake of the Coronavirus pandemic are reportedly behind the adjusted offer.
CVC has declined to comment.
Leyou's earnings were also a likely factor, with the company reporting a net loss of $8.4m in 2019, compared to net income of $20.4m in 2018.
CVC later joined iDreamSky in the takeover bid in February. IDreamSky, the rival gaming company, had been in talks with Leyou's controlling shareholders since late last year.
IDreamSky had planned to hold a majority stake in Leyou, while CVC was set to hold a significant minority stake in the entity formed out of the two merged gaming companies.
Advanced discussions on the new offer are underway with Leyou shareholders. The companies may not be able to reach an agreement and talks could still fall through. Shares of Leyou have dropped about 13 per cent this month, giving the gaming firm a market value of $7.2 bn HKD ($929 million).

## HEALTHCARE, SWEDEN

**Target: Alfa**

In: Main Capital

Main Capital has acquired a majority stake in Swedish eHealth software group Alfa.
Alfa provides journaling, electronic prescription, medication management and care planning solutions to public and private healthcare providers. The group employs close to 40 employees and serves more than 400 customers throughout Sweden.
Main will help Alfa identify strategy combinations within the market to expand and develop its offering; adding value for its customers. Similar investments by Main include Enovation, SDB Group, RVC and Regas. Main is a strategic investor with a focus on the software sector in the Benelux, DACH and Nordics regions.

## MANUFACTURING, FRANCE

**Target(s):Cortus, Salveco and Sonomo**

In: Sobera Capital

Sobera Capital has acquired a portfolio of three minority equity holdings in French private companies; Cortus, Salveco and Sonomo.
Founded in 2005, Cortus is an IP design and fabless chip semiconductor company headquartered in Mauguio, France.
Salveco is an industrial laboratory, based in Saint-Dié-des-Vosges, France, specialised in plant-based chemistry and formulating cleaning and disinfecting products.
Sonomo is a retailer of new and used cars based in Roques, France.
The acquisitions were made via the firm's Sobera Capital Fund V GmbH & Co. KG.
The assets were bought from funds managed by A Plus Finance, Paris.
Sobera Capital is a Berlin based independent secondary direct investor focused on growth and small-cap funds and assets in healthcare and selected other industries.

## MANUFACTURING, UK

**Target: Armstrong Ceiling Solutions**

In: Aurelius
Out: Knauf International
CF: PwC
L: Eversheds Sutherland, Linklaters, Bruckhaus Deringerm, Freshfields
T: KPMG

Aurelius has acquired Armstrong Ceiling Solutions from Knauf International GmbH.
Armstrong has ceiling tiles and grids businesses in Austria, Estonia, Germany, Ireland, Italy, Latvia, Lithuania, Portugal, Spain, Turkey and the UK.
The business comprises of two production facilities situated in the North East of England, three distribution centres located in the UK, Germany and Spain, and business operations and sales across 11 markets.
Aurelius will implement a multi-year capital investment programme designed to deliver technical and specification upgrades to both the mineral fibre and grid production sites. The firm will also work closely with the management team to take advantage of the growth opportunities across non-residential construction sectors.

## MANUFACTURING, ROMANIA

**Target: Eltex Recycling**

In: Abris Capital

Abris Capital's recycling business Green Group has acquired industrial waste management business Eltex Recycling.
Eltex Recycling was established in 2012 as a local subsidiary of Eltex Kft which was founded in Hungary. The business provides integrated waste management services including organising the production flows for waste collection and identifying recycling solutions to extract the maximum value from the generated waste.
Green Group is a leading European recycling company, active in the recycling of all major waste streams.
The two companies will merge to expand Eltex Recycling's position as a leading provider of waste management in Romania; delivering high quality, cost efficient and sustainable services.



## RETAIL, GERMANY

**Target: Emma**

In: Haniel

Haniel has agreed to acquire Emma – The Sleep Company. Headquartered in Frankfurt, Germany, Emma, was founded in 2013 and has developed from an online platform for mattresses and sleeping systems, into an internationally operating sleep tech provider.
Emma is available in 21 countries worldwide and has established itself as the leading bed-in-a-box supplier in a number of European countries.
Its two founders, Manuel Müller und Dr. Dennis Schmoltzi, will each retain a 24.95 per cent stake in the company and will continue to drive Emma's international expansion as active CEOs.

## HEALTHCARE, UK

**Target: Wellbeing Software Group**

Out: Elysian Capital
A: KPMG
C: LEK, Crosslake
CF: Raymond James
L: Stephenson Harwood

Elysian Capital has sold Wellbeing Software Group, a UK-based radiology software company, to The Citadel Group for £103m. The sale represents the sixth exit from Elysian Capital I LP and realises a 4.5x return for the fund.
Since investing in Wellbeing in January 2014, Elysian has supported the management team in developing its product service offering.
Wellbeing's acquisition by Citadel, an Australian healthcare provider, transforms the business into an international healthcare software company with multiple growth opportunities.
Elysian invests in the UK lower mid market. The firm is currently deploying from its second flagship fund, Elysian Capital II, which closed in July 2015 at £250m.
As part of the transaction, Elysian were advised by Raymond James, Stephenson Harwood, LEK, KPMG and Crosslake.

## BUSINESS SERVICES, UK

**Target: Substantive Research**

In: Foresight
C: HNN Partners
MG: Confidas People
L: Anderson Strathern LLP

Foresight Group has made an £800,000 growth capital investment into research analysis provider Substantive Research Limited.
This is the fourth investment made by the £20m Foresight Scottish Growth Fund, which is financed by the Scottish Growth Scheme through a combination of Scottish Government funds and the European Regional Development Fund (ERDF). As part of the investment, Foresight will help to accelerate the business' growth by investing in the team, its Scottish office and international expansion.

# Q&A

LP CORNER

# NICOLAS SCHELLENBERG

## Head of private equity & venture capital research, EMEA, Cambridge Associates

*Nicolas Schellenberg highlights that as commitments to private equity funds can often have different currencies, LPs have a lot of work to do to manage their investments.*

**By** *Talya Misiri*

Based in the US, Cambridge Associates is one of the earliest investors in private equity with a track record in sourcing best-in-class investment opportunities and managing private equity programs for its clients. The investor places great importance on finding and investing with the small universe of managers who can deliver outperformance. It requires extensive resources and specialised expertise to source these, the LP says.

"Robust knowledge of the private equity landscape and deep global networks, built over 40 years of investing in this asset class, provide us with a natural pipeline of new manager ideas as individuals spin out of their prior firms to set up their own shops.

"We have also often been able to use our market presence and scale to negotiate more favorable fees and terms for our clients."

Cambridge Associates' head of private equity and venture capital research, EMEA Nicolas Schellenberg spoke to *Real Deals* about how the investor is operating in the current climate and his predictions for what the private equity market is likely to look like in the short term.

### What does your role entail?

Based in the London office, I head our research team in venture capital and private equity in EMEA.

I do most of the due diligence on funds that we overwrite. I am responsible for performing due diligence on private equity and venture capital opportunities in Europe, as well as across some emerging markets, including Latin-America and Africa.

Our role as an investor is key in finding the best funds, ideas and visiting new managers.

As part of my role here, I also work to update our clients on individual managers.

### How has Covid-19 impacted your firm?

As we are global, we are used to interacting virtually and have the systems to do so.

All members of our global investing team, regardless of location, have the same information, tools, and capabilities outside the office as they do inside Cambridge Associates' walls. Everyone works remotely now and it is quite efficient, so our day to day operations have not necessarily been impacted.

### What conversations are you having with funds?

We are reaching out to managers asking what their portfolio looks like. Most managers have looked at their portfolio and are sending updates on operations moving forward. Everyone seems to be prepared to a certain extent.

In the last year or two years, every communication we have had with a manager was how/are you prepared for a downturn, so either way, they had considered some impact.

Apart from some exceptions (travel, pharma), it's hard to see how severely different sectors will be affected.

### What is the overall PE landscape likely to look like in the coming months?

Exits will be delayed and multiples probably will go down. IPOs will also probably not be an option at the moment and strategic buyers might also find acquisitions challenging.

We will be likely to see less dealmaking in the short term, more in the medium term and prices likely to rebalance.

There will be more co-invest opportunities relative to investments made by funds.

### How is the current landscape impacting fundraising?

Some big funds are accelerating their timeline as they want to close earlier. They want to lock in the capital and be able to invest in what might be an attractive market.

In contrast, the funds that are relatively new to the market, which don't have such a strong existing LP base will have to delay a little bit.

Additionally, if pricing goes down, there may be some managers that see continuation funds as the best option. There are multiple things to consider for LPs and GPs. If a GP is expecting to get a higher result for investors, they may choose liquidity rather than a secondary sale.

### What do LPs need to consider when assessing their investments?

Commitments that a lot of LPs have are often in different currencies. Given the volatility on the currency side as well, this is something that they will have to monitor.

Investors and LPs have a lot of homework to do on their investments, being mindful of liquidity, planning for capitals to come, be it from past investments which funds funded with capital call facilities or new investments and taking into account current and future commitments they've made.

Our advice is to keep investing at a normal pace, don't react suddenly and follow your investment plan. If anything, the impact of the Covid-19 virus shows the importance of having long-term capital and being diversified in order to muddle through to better days.

### How should investors assess their investments?

You need to look at the major drivers in every managers' portfolio. Consider the larger impacted companies and which ones have the highest value and what would hurt the most if they get impacted. You also need to consider what managers are doing to navigate the situation and what companies are at risk. ●

# PEOPLE

## FRP

FRP Advisory has appointed **Ian Corfield** to partner. Corfield joins the restructuring advisory team at FRP in London and will focus on growing the team's network in the debt fund marketplace and providing restructuring services.

Corfield previously held senior roles at KPMG and Grant Thornton before being appointed head of corporate finance at CBRE Hotels EMEA. Most recently he was managing director at White Oak Global Advisors.

## SYNOVA CAPITAL

Synova Capital has promoted **Zachary Tsai** to partner and **Matthew Charman** to investment director.

Tsai was formerly an investment director and worked in Synova's technology sector. He joined the firm in 2013 from Alantra Corporate Finance, having previously trained at PwC after graduating with a first class degree in software engineering.

Notably, Tsai worked on Synova's recent exit of tech-enabled healthcare provider, 4Ways, which generated a 6.0x return in 2018. He is the first 'organic' executive to reach partner level, having joined the firm as a junior investment manager in 2013.

Charman joined Synova in 2015 from McQueen Corporate Finance. Prior to this he spent four years at KPMG. Last year, Charman was involved in the sale of Stackhouse Poland to AJ Gallagher, which returned 5.6x capital.

## ARDIAN

Ardian has appointed **Daniel Graf von der Schulenburg** as managing director and head of infrastructure, Germany.

Schulenburg will be based in Ardian's Frankfurt office where he will be responsible for its infrastructure investment activities.

He will also join the supervisory board of EWE, a German utility company that Ardian acquired a 26 per cent stake in this year.

Schulenburg most recently served as a partner at 3i in London. There he was responsible for infrastructure investments in the energy, telecommunications and transport sectors.

Prior to this, he worked for the energy-focused investment company Hudson Clean Energy Partners, where he also served on the infrastructure investment committee. He is also a co-founder of Sunlight Financial, a specialty finance company in the US.

## UNIGRAINS

Unigrains, the agri-food and agro-industry focused private equity firm, has named **Sébastien Essioux** as deputy CEO. Essioux is an executive with more than 30 years of experience in strategy and organisation consulting, consumer goods, the agricultural cooperative sector and retail distribution.

As a graduate of ESCP Business School, Essioux spent 15 years consulting in France and abroad, with companies such as Andersen Consulting (Accenture), Mars & Co, Mitchell Madison Group and A.T. Kearney.

In January 2017, Essioux joined the Groupement Les Mousquetaires first as Group CFO, then as CEO. Prior to this he served the French cooperative Axéréal as group CFO, then deputy CEO, in charge of finance and strategy.

## BAIN

Bain & Co has appointed **Alexander Schmitz** as the new head of the private equity in the DACH region.

Schmitz will succeed Rolf-Magnus Weddigen in the role. Weddignen has built and managed Bain's private equity business in the region for the last two decades.

Since joining the firm in 2003, Schmitz has advised investors in deal generation, M&A transactions and fund strategy; both as a managing partner in the Düsseldorf Bain office and as head of Bain's European PE portfolio activities.

He holds a degree in business administration from Otto Beisheim Graduate School of Management in Germany, as well as an MBA from the University of Texas.

## AUGUST EQUITY

August Equity has promoted **Richard Muckle** to investment director.

Muckle joined August Equity in 2017 and recently co-led the firm's investment in AirIT, a provider of managed IT support, digital transformation services and cyber security to SMEs.

He also holds board seats at Zenergi and Fosters and was a member of the team that led August Equity's successful exit of Wax Digital in November 2019.

Muckle began his career in strategy consulting with Booz and Company before working in M&A at Liberty Global. He started his private equity career at Azini Capital.

August Equity invests in service orientated companies in high growth sectors of the UK mid-market. The firm recently announced the close of its latest fund, August Equity Partners V, at a hard cap of £300m.

## PARABELLUM

Parabellum Investments is expanding its UK team as it prepares to expand with new acquisitions and investments in the wake of the Covid-19 crisis.

Parabellum has appointed **Gerry Hoare** as its first director of corporate development.

Hoare has over 25 years' experience in the financial services sector, and a strong record in building asset-backed finance for mid-market companies.

The company is also recruiting for an analyst to work in its business development team, to research potential markets and companies for acquisition.

The push coincides with mounting concern over whether government-backed bank loans will be sufficient to support many smaller companies.

Parabellum Investments backs smaller and mid-sized companies with revenues of up to $100m.

## GENESIS

Genesis Capital Equity has promoted **Ondřej Vičar** to managing partner, along with other team members.

Vičar has been working for the firm since 2007 and replaces Jan Tauber who founded and began developing Genesis Capital more than 20 years ago.

The appointment is part of the natural succession process within the group.

Tauber remains with Genesis Capital and will now hold the position of chairman and chairman of the investment committee.

**Martin Viliš** has become a new partner at the company, becoming the fifth partner in total. He joined Genesis in 2018 and spent over 11 years at Česká spořitelna before this. He served as director and head of acquisition and leverage finance, and as head of the corporate banking team prior to this.

**Tatiana Balkovicová** has been promoted to the position Viliš leaves behind, senior investment director. She joined Genesis from Deloitte in 2018.

**Tomáš Sýkora** has been promoted to investment manager from his role of senior investment analyst.

**Adam Ruta** has taken over the role of senior investment analyst.

The firm's promotions have been made in line with the planned launch of a new fund – Genesis Private Equity Fund IV. ●


# Vulture

## Barbarians turned knights

Private equity execs aren't exactly known for their charitable personalities. Quite the opposite in fact, having been described as cockroaches, vultures and vampires in the past. So, after hearing that Partners Group's co-chief executives and board of directors plan to donate 100 per cent of their base salaries for the next six months to support its portfolio companies, the old bird almost fell off his perch.

Word on the eerily deserted street is that private equiteers, sick of always being the bad guys, are using the current pandemic to dramatically rebrand themselves; from barbarians at the gate to knights in shining armour. Like most, Vulture has been seriously rattled by the news and wonders which firm will be next to fall victim to this unnatural affliction? For all the upheaval and devastation caused by Covid-19, the virus seems to have achieved what everyone believed was impossible and thawed the perceived icy hearts of private equiteers around the world.

## Selfie horror

These days, there is barely enough time to recover before the next devastating piece of Covid-19 news breaks. This time all it took was a single email, containing a 'selfie' of a dealmaker, to bring the carefully, crafted image of perfection embodied by private equiteers, crashing down around Vulture. The dealmaker in question had taken it upon himself to create the headshot needed for an article after the professional photographer originally hired for the job had to cancel following new lockdown rules. While we appreciate the effort, and sympathise with the private equiteer during these trying times, the result was less than ideal to put it nicely. The selfie seemed to be taken in what we can only presume was a dimly lit basement or perhaps a bathroom cubicle, and the peeling wallpaper was less 'shabby-chic' and more house of horrors. Thanks to the artistry of our designer, we managed to salvage the situation, but the memory remains...

## Coping methods

This past week, Vulture has heard an array of different 'coping methods' as we all fight to retain our last shreds of sanity. But one in particular really took the cake... Our good friends over at Drax recently recruited new team member Marcus Beale, who shared with us some tips on coping with quarantine that he picked up during a 48-day solo North Atlantic row. "My mental strength was definitely challenged. I frequently talked to inanimate objects. After three weeks they started talking back to me!" Beale said. Vulture is both very impressed and deeply worried....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