



# ACCESS CAPITAL PARTNERS

## PRIVATE ASSETS IN EUROPE

### 2018 GENERAL PARTNERS MEETING

#### SUMMARY OF MARKET VIEWS

On 14 December 2018, Access Capital Partners (Access) held its 18<sup>th</sup> Annual General Partners Meeting and gathered 55 of its smaller buy-out General Partners (GPs) to exchange views on the current state of the market.



# SUMMARY

Looking back on 20 years of experience in selecting top-tier smaller buy-out funds across Europe, Access has seen a number of evolutions in the Private Equity industry and particularly in the buy-out segment. While the market continues to evolve, the fund managers backed by Access highlighted the importance of being able to adapt to change while staying true to their strategy and sticking to key success factors.

## KEY MARKET TRENDS

The European Private Equity industry has significantly matured over the years, bringing increased professionalisation and attracting a wide range of investors to the asset class.

As funds raised in Europe have drastically increased (c.€92bn in 2018 vs. €20bn 20 years earlier) and as dry powder has piled up, fund managers have had to build a competitive edge, both for their investors and for target portfolio companies, which have become more selective in picking their financial partners in a highly competitive environment.

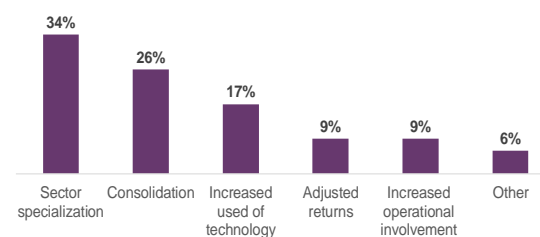
### Specialisation

Some GPs have set up new offices abroad, hired operating partners, set up dedicated sourcing teams or internalised market research, but the key trend expected going forward is specialisation. Indeed, although most managers still prefer sticking to generalist strategies combined with a local edge, 34% of GPs questioned by Access expect increasing specialisation going forward.

### Consolidation

In addition, 26% of respondents see consolidation and the development of asset management platforms as a key trend, as mid-size managers try to expand their reach, acquire new competencies and raise more capital.

### EXPECTED INDUSTRY CHANGES GOING FORWARD



Source: Survey of Access' GPs

Along with market maturity and professionalisation, increased intermediation has made the market more efficient and transparent than before, although GPs with good sourcing capabilities are still able to find angles when participating in auction processes.

*“Almost everyone knows the price in today's market”*

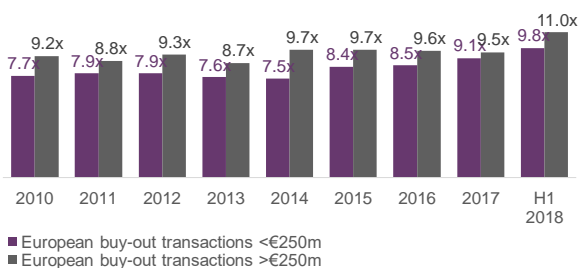
## Heightened competition

After another strong fundraising year, competition amongst buyers and pricing levels remain high across all areas of the buy-out market, and fund managers noted that the spread in pricing between high and low quality assets seemed to have reduced. Small and mid-market players have suffered from competition from larger domestic or international players entering a previously less desirable area of the market. GPs however generally do not feel threatened by foreign players without local presence.

*“Many parts of the market are still very local”*

Pricing remains relatively more attractive at the lower end of the market, particularly as the smaller companies are typically less leveraged. While GPs have observed significant amounts of debt with covenant-free structures being used for large buy-outs, the availability and terms of acquisition debt for smaller companies remain reasonable.

AVERAGE EV/EBITDA MULTIPLE AT ENTRY



Source: Access Capital Partners, S&P, Unquote, Epsilon

Pricing may have increased in all areas of the market, but a majority of the GPs expect buy-side sentiment to remain the same in 2019 as in 2018. Although valuation at entry is an important element of the performance equation, participants argued that it was not the only ingredient to secure good returns. Going into the details of operations – for example implementing changes in company

management, in supply chains or in the pricing of products – is also a powerful tool to create value.

*“Private equity is an entrepreneurial game, not a financial engineering game”*

## NO SINGLE RECIPE FOR SUCCESS, BUT SOME KEY INGREDIENTS

### Differentiated sourcing

To deploy capital in a competitive environment, participants highlighted the importance of accessing differentiated deal flow through systematic sourcing efforts. Deal origination has become increasingly professionalised and is no longer just about senior professionals networking, but about GPs implementing processes to make sure they exhaustively cover their segment of the market. This can be done through hiring dedicated sourcing professionals, or for example through implementing a weekly cold-calling routine for all team members.

*“Sourcing has been demystified”*

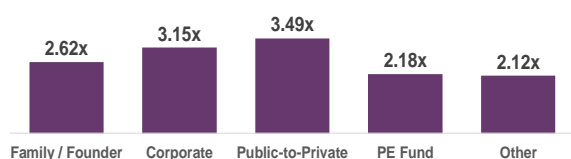
GPs obviously agreed that it was best to focus on proprietary sourcing and limited intermediated processes rather than participating in wider auctions which typically drive pricing up and limit access to company management. However, even though deals are increasingly intermediated, the best GPs still find ways to have an edge and pre-empt processes as they approach business owners and management well in advance of any organised sale.

Participants also concurred that there was a premium for complexity in avoiding “plain vanilla” or secondary deals and focusing on primary situations (the vendor being a family, founder or a corporate as opposed to a private



equity firm), where there is more room for transformational change and value creation. As an illustration, in Access' portfolio, corporate carve-outs and P2Ps have historically shown above average returns, as do primary deals with significant re-investment from the founders and management.

#### AVERAGE RETURN MULTIPLE BY SELLER TYPE ACROSS ACCESS' PORTFOLIO



Source: Access Capital Partners

#### Providing support

There is a clear sentiment that completing good buy-out deals is more difficult than it used to be, as companies operate in increasingly complex environments, having to navigate through a number of challenges, from the impact of digitalisation on business models to tax and regulatory issues.

Some GPs have therefore increasingly been relying on experts to help their companies on a wide array of topics going beyond private equity: digitalisation, human resources, regulatory changes, ... These experts can be part of a GP's network, or in-house as operating partners, and can also be used as marketing tools to win new deals. One of the GPs in Access' portfolio has developed a matrix organisation to ensure that everyone in the management company has a field of expertise, e.g. Corporate Social Responsibility, legal knowledge, accounting, etc..

*“As we cannot be experts in everything, we try to create an ecosystem of people around us who can help on specific situations”*

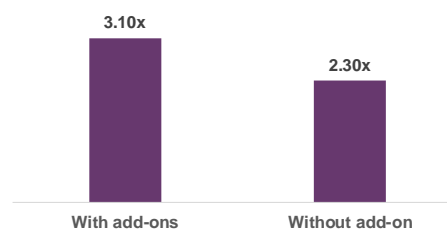
#### Creating value

In addition, active ownership is key and GPs usually implement a number of changes to make businesses better and create value: operational improvements, talent management, internationalisation, external acquisitions...

In a context of relatively limited organic growth, GPs have increasingly been engaging in buy-and-build strategies, which are an efficient way to deploy capital into smaller companies, at reasonable valuations and typically on a proprietary basis. If executed properly, acquiring a portfolio company serving subsequently as a platform for add-on acquisitions can average down the initial entry price, promote revenue and cost synergies, create value and most likely enhance the exit multiple.

The analysis of Access' realised investments shows that growth strategies based on the acquisitions of strategic "add-ons" have on average generated significantly stronger returns (3.1x) than the sole reliance on organic growth strategies (2.3x).

#### AVERAGE RETURNS IN ACCESS' PORTFOLIO



Source: Access Capital Partners

#### Having a plan B

Although participants agreed that the focus should be on growing portfolio companies, the majority concurred that the market seemed to be approaching a peak – “*what goes up must go down*” – and that it was also important to anticipate and prepare for a potential downturn.

For new investments, staying disciplined in terms of pricing and leverage, and focusing to the extent possible on companies with recurring revenues, relatively low cyclical, limited capex and flexible cost bases should provide some degree of protection from macro-economic headwinds. Some GPs also put target investments through the test of a “cyclical analysis” to model the impacts of a potential downturn on returns.

For existing investments, emergency plans need to be discussed in advance with management teams in order to be able to adapt businesses to different scenarios should a crisis hit. As small companies may not always have the resources or bandwidth to do this, the GP has a key role in accompanying CEOs and CFOs in this exercise, whether it is being tough on budget discussions, helping them to identify KPIs to monitor or holding a one day offsite to discuss possible plan Bs and identify projects, hiring plans or costs which could be downsized if required.

Generally, GPs have been opportunistic with regards to early portfolio liquidity, making the most of the seller’s market of the last few years to anticipate exits and crystallise returns faster than originally planned

### **Ultimately a people’s business**

Ultimately, one of the key ingredients for good returns is good professionals. GPs cannot

highlight enough how important it is to have confidence in the management team in place. Younger teams were said to fare better as they are often more able to adapt to an ever changing and increasingly complex business environment, and typically more open to rapid changes and to the GP’s input. Yet, it is not so much the age of the management team but its dynamism and ambition to push through complex projects that matters.

*“A bad management team can fail a good company, and vice versa”*

The GP’s team is also a key success factor and needs to have a number of qualities, which Access systematically looks for. First of all, team members should be driven and ambitious, as private equity is hard work. A good team should also be able to challenge each other all the time, on every investment assumption. Overconfidence is generally not a desirable quality.

*“Success is not a good teacher”*

Finally, a GP should above all be able to apply common sense to investment decisions, beyond the excel spreadsheet, and to be rigorous, factual and result-oriented.

*“We look for solid businesses, not flavour of the month”*

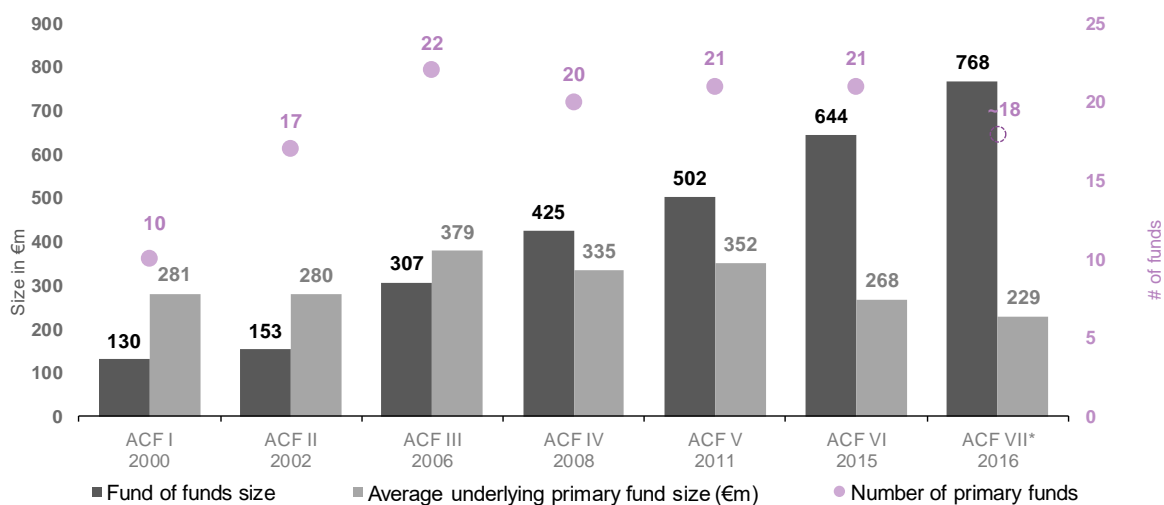
## CONCLUSION

The role of private equity fund managers has significantly evolved in the past two decades to create true value beyond financial engineering through a number of operational levers. The asset class has matured and become highly professionalised and more transparent, pushed by increasing LP requirements. Its solid performance attracts an increasing number of investors and we expect capital to continue flowing in and competition to remain strong.

GPs will therefore be compelled to specialise or consolidate to avoid adjusting their returns. At the same time, taking advantage of the strong fundraising environment, a number of new teams will continue coming to market, allowing the European smaller buy-out fund universe to be constantly regenerated.

This will allow Access to continue to renew its portfolio of GPs over time in a bid to maintain a sustainable value creation model and strong returns across the cycles, demonstrating a consistent approach to portfolio construction. As illustrated below, although Access' funds of funds sizes have progressively increased, the average size and number of underlying funds has been stable if not decreased.

### A CONSISTENT APPROACH TO PORTFOLIO CONSTRUCTION



Source: Access Capital Partners \*ACF VII still deploying capital

Access has continuously looked for a strong alignment of interests with its GPs by building with them a mutually beneficial and transparent relationship. In this respect, Access has over the past two years captured an average 29% share of the funds it has backed, making it often the largest investor in funds with a strong say in the advisory committees.



## ABOUT ACCESS CAPITAL PARTNERS

Established in December 1998, Access Capital Partners is a European independent Private Assets manager, majority owned by its management. With offices in six European countries and aggregate capital commitments of €8.8 billion, Access' integrated expertise offers exposure to Small Buy-outs, Infrastructure, and Private Debt through funds of funds, direct & co-investment funds and customised solutions.

The team is fully committed to integrating Environmental, Social and Governance best practices into its investment strategies, acknowledging that a responsible investment approach partially mitigates investment risk and enhances long term returns.



€8.8bn  
AUM



250+  
INVESTORS



6  
EUROPEAN  
OFFICES



73  
PROFESSIONALS

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