

Acting as lead investor in European small-cap buy-outs: Access Capital Partners' winning strategy

“The small-cap segment offers attractive entry prices in sectors that are highly valued by private equity firms.”

Access Capital Partners has become the market leader in the European small-cap buy-out segment thanks to its 26 years of exhaustive market coverage and its relationships with over 130 fund managers. Its position of influential investor, committing on average one third of the capital raised by selected funds, entails a true leadership role and capacity to mentor and support managers.

Managing Partners Agnès Nahum and Philippe Poggioli review this successful methodology.

How would you describe Access Capital Partners' buy-out activity?

We have been investing in small-cap buy-outs since the creation of the firm in 1998. Since then, we have grown to become the largest investor in small-cap funds, with a real leadership position among established and emerging managers. The firm has consistently maintained significant investment capacity on this market.

The other specific feature of our strategy is our European focus. With 20 nationalities represented in our team and offices in six countries, we have developed in-depth knowledge of the characteristics of this highly dynamic and diverse market segment. Our investors trust us to navigate a more complex and potentially more rewarding investment universe than the mid and large-cap segments.

What types of funds do you invest into?

We invest predominantly in funds below €500 million aiming to build concentrated portfolios of five to ten underlying companies generally valued below €100 million. As such, selected fund managers are more efficient in deploying capital, resulting in attractive cash flow profiles and superior performance. As part of our fund portfolio construction, we seek visibility on assets and therefore tend to invest in funds which have already begun deployment, particularly in the case of emerging managers.

Access has historically backed emerging managers, what are the benefits of such approach?

Access believes that emerging managers often demonstrate a truly differentiated offering to stand out in a busy and highly competitive landscape. They offer strong relative performance potential in addition to other key investment benefits. These include access to under-served parts of the market, sectorial expertise, off-market sourcing, proven hands-on approach to value-creation, and even stronger alignment of interest.

While on average we hold 30% of underlying funds in which we are invested, the figure rises to 50% in the case of emerging funds. By underwriting large investment tickets, we foster stronger governance, and we benefit from favourable terms and conditions. Our position of cornerstone investor allows us to truly

support fund managers in the design of the key parameters of their funds. It also brings strong synergies with our secondaries and co-investment activities.

In the small-cap buy-out universe, how do you select funds? And what is your value creation strategy?

Identifying top performers in the European small-cap buy-out fund market is at the core of Access' DNA. Fund managers are selected on their ability to source off-market investment opportunities in businesses with high profit margins, structural growth potential and strong sustainability profiles, operating in fast-growing and resilient sectors as essential business services, IT & digitalization, and healthcare. The other key factor for outperformance is the ability to acquire businesses at conservative entry valuations and with low levels of leverage, a natural hedge against the current headwinds. These companies typically double their EBITDA over four years on average and attract strong interest from both strategic buyers and financial sponsors, thereby ensuring continued liquidity for our investors.

Historically, Access' small cap portfolio has been acquired around 8x EBITDA and, following significant operational value creation combining organic growth and strategic acquisitions, has commanded higher valuation multiples at exit, averaging 12x to 13x EBITDA.

The European M&A market has been relatively flat in the recent period. How do you ensure liquidity in this environment?

Although the overall European buy-out divestments fell significantly over the past 2 years, Access' fund managers have been able to outperform the broader industry. They delivered a consistent flow of exits at attractive money multiples.

The majority of our portfolio operates in fragmented sectors, both geographically and in terms of the number of players. For these markets, consolidation and buy-and-build strategies are both a major value creation driver and a liquidity factor, offering clear exit routes via sales either to mid-cap buy-out funds or to companies held by mid-cap buy-out funds. Therefore, the mid-cap segment, which currently has significant dry powder but facing a major shortage of deals, has acted as a natural reservoir of liquidity for our portfolio.

About Access Capital Partners

Established in December 1998, Access Capital Partners is an independent Private Assets manager, majority owned by its management. With offices in six European countries and aggregate investor commitments of €14.2 billion, Access' integrated expertise offers exposure to Small-Cap buy-outs, Infrastructure, and Private Debt through multi-strategy funds, direct & co-investment funds and customized client solutions. As an early signatory of the UN-PRI in 2008, the firm 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.

www.access-capital-partners.com

€14.2bn AUM*

350 INVESTORS

6 EUROPEAN OFFICES

95 PROFESSIONALS

*funds historically raised

**FOR MORE INFORMATION,
PLEASE CONTACT:**

MANAGING PARTNERS

Agnès Nahum

agnes.nahum@accesscp.com

Philippe Poggioli

philippe.poggioli@accesscp.com

PARTNER, INVESTOR
RELATIONS & COMMUNICATION

Cécile Croissant

ccroissant@accesscp.com

+33 (0) 1 56 43 61 00