

The mid-market is alive and well

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The dynamics of the smaller and mid-markets are very different from the larger end of the market. There are investors who have always felt most comfortable in the large buyout space, with household name managers and portfolio companies to match. But now that we are experiencing highly testing economic conditions, investors who have chosen the small and mid-market route are seeing the benefits of their investment decision. It is not for nothing that some of the largest discounts to NAV currently seen in the secondaries space are for the larger end buyout funds with substantial unfunded capital commitments outstanding.

In essence, the advantage of small and mid-market funds for investors is that they generally avoid excessive amounts of debt, tend not to pay double-digit multiples for assets; and since their managers aren't in the habit of raising outsized funds that generate huge fees, their interests typically remain aligned with those of their investors.

Prior to the global economic downturn of 2008, the large-end investment model did yield attractive double-digit returns - but only on a temporary basis. Now that the private equity model has reverted to an emphasis on business growth and operational improvement, the benefits of the mid-market model are more apparent than ever before.

For mid-market specialists with established relationships and a proven track record, even a trading environment as difficult as the current one can still yield opportunities. In the mid market, where Greenpark has a particular focus, many late (70% plus funded) positions are now being priced at extremely attractive discounts.

When Greenpark Capital buys mid-market funds in the secondary market, portfolio investments are often leveraged at around three times or less, making them a very attractive proposition. For investors seeking high quality, mature assets with earnings visibility and a less competitive environment, the European mid-market continues to offer excellent investment potential.

The issues of liquidity and capital commitments will drive sales of attractive European fund positions, these drivers are as pertinent for Asian and MENA Limited Partners as they are for European and US investors. In terms of deal sourcing, secondary professionals with the right experience and a deep knowledge of local markets will be able to respond quickly to the growing market opportunities, invest across multiple territories and identify real value in a difficult environment. Avoiding the intermediated/auction route offers a wide range of benefits, most notably the ability to avoid buying at punchy valuations at the outset, which can impact exit returns. Detailed due diligence, from portfolio companies upwards, - the core risk mitigation for mid market secondaries investors - will continue to provide downside protection.

In the current market, where €500m+ primary deals are thin on the ground, larger funds are increasingly changing their focus to the mid-market. Greenpark, however, is an established mid-market specialist with a reputation for providing discreet, tailor-made solutions for its clients.



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