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MEDIA RELEASE

Small company buyout funds could deliver more to investors than larger buyout funds

Private equity funds focused on buying smaller companies typically outperform funds buying larger companies, with more attractive investment opportunities and lower buy in prices available in the small to mid-cap universe, according to analysis from fund manager Access Capital Partners.

Philippe Poggioli, Managing Partner with Access Capital Partners, said "smaller buyout funds offer potentially greater upside to investors compared to larger funds. This outperformance is the result of small-cap fund managers' access to more investment opportunities, lower valuations at entry, more opportunities for value creation, and the potential for greater earnings expansion upon a sale".

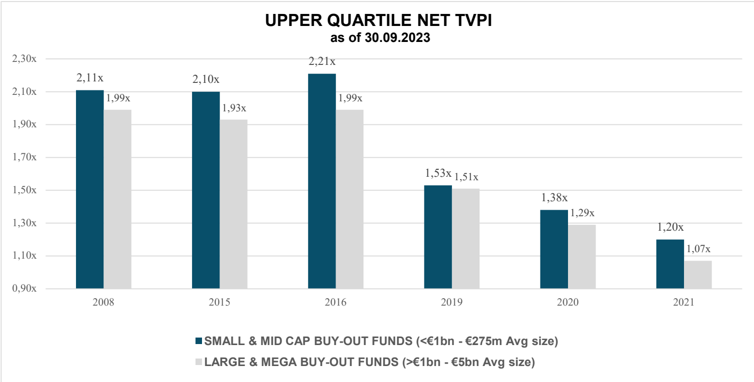
"Historically, small and mid-market companies have presented lower entry multiples for buyers. According to statistics from Access Capital Partners, S&P, Unquote, Epsilon Mid-Market Index and Clearwater International as of June 2021, the average multiple paid for companies with an enterprise value (EV) of less than €250 million has come c. 20 per cent lower than entry earnings multiples for larger businesses (typically above €250m EV) being bought by buy-out funds over the last 10 years," he said.

"One primary factor driving this discount is that the small-cap private equity segment is less intermediated and deals are often sourced through proprietary networks rather than through competitive auctions," said Mr Poggioli.

The small and mid-cap segment makes up the bulk of the private equity space, accounting for 98 per cent of all private equity funds in the market and 90 per cent of all buy-out deal volume in Europe.

Access' analysis[1] reveals that upper quartile small and mid-sized buy-out managed funds, or those assets under management (AUM) of less than €1bn and with a €275m average, have outperformed larger managed funds (having more than €1bn with a €7 billion average size in AUM) on a net total value to paid in (TVPI) basis[2], as the following chart shows.

[1] Based on proprietary information and Preqin database
[2] On the vintages where information is available for both segments



In explaining the more attractive returns, Mr Poggioli said smaller companies are usually less mature than large company target in terms of how efficient and developed their businesses are and offer the potential for greater growth and scale than buying larger businesses.

"As such, incoming private equity investors have more space of actions to drive growth by strengthening and supplementing management teams, improving operations and financial controls, introducing new product lines, expanding internationally, or increasing sustainability to capture long term strategic value. In contrast, large buy-out investments have in the past strongly relied on deleveraging to achieve returns," he said.

"We anticipate our smaller buy-out funds to deliver net internal rates of return (IRR) greater than 15 per cent over 10 years. Our funds have also demonstrated much lower volatility in returns than listed markets across the cycles," he said.

"Across the private equity market, returns on smaller buyout funds are strong. Based on Access' analysis covering 518 European small and mid-cap private equity funds with AUM below €1bn over 1999-2021 vintages, first quartile funds have delivered an aggregate net IRR ranging between 15 per cent and 43 per cent per annum depending on vintages, while the 2007 vintage was the most affected by the major financial crisis, yet the performance remained solid at 15 per cent," he said.

However, the dispersion of returns is higher among small and mid-cap managed funds than among their larger counterparts.

"As a result, investors need to apply rigorous due diligence process when selecting small and mid-cap funds to generate superior performance," he said.

"Still, smaller companies are ideally placed to serve as a platform for buy-and-build strategies, allowing for consolidation and external growth. As such, fund managers have increasingly been engaging in these strategies, which, if executed correctly, are a good way to deploy capital at reasonable valuations, promote revenue and cost synergies and create value. Such enlarged companies are more attractive to potential acquirers and investors and thus command a higher multiple upon exit than at acquisition," said Mr Poggioli.

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About GSFM

GSFM was established in 2007 as a subsidiary of the Grant Samuel Group. In 2016 Canadian wealth manager CI Financial Corp (CI) purchased an 80 per cent stake in the business, previously held by Grant Samuel.

GSFM specialises in marketing funds managed by high calibre local and international managers to Australian and New Zealand institutional and Australian retail investors, and has formed partnerships with eight specialist investment managers:

- New York based Epoch Investment Partners, Inc.
- Tribeca Investment Partners, a successful Australian boutique manager headquartered in Sydney
- Payden & Rygel, a Los Angeles based independent investment management firm
- Munro Partners, an independent global equity manager based in Melbourne
- London-based Man Group plc
- Tanarra Credit Partners, a specialist in private credit instruments
- Access Capital Partners, European independent private asset manager
- Australian Entertainment Partners, to produce the AEP Screen Fund, an investment vehicle dedicated to supporting Australian film and television endeavours.

GSFM represents approximately $9.56 billion funds under management (as at 31 March 2024).

www.gsfm.com.au

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 €14.3 billion, Access' integrated expertise offers exposure to Smaller Buy-outs, Infrastructure, and Private Debt through funds of funds, direct & co-investment funds and customized client solutions. As an early signatory of the UNPRI 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.

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