GREENPARKCAPITAL

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FINDING FORM IN A COMPETITIVE MARKET

Greenpark Capital's time has come, according to founder Marleen Groen. Five years ago, when it was spun out of Coller Capital, a pioneer of Europe's private equity secondaries market, it was unclear why anyone would buy into Greenpark's proposition of medium-sized deals in Europe and the US.

At its outset the secondaries fund market, where investors sell unwanted stakes in private equity funds, was dominated by large sales by banks, insurance companies and corporates moving out of private equity.

Two or three years ago, banks were selling portfolios worth €500m ($600m) to €1bn. But those huge deals have gone. Those still active have decided to take regulatory and financial consequences. So secondary sales have become more about housekeeping and tend to be between €50m and €100m.

This shift has played to Greenpark's strengths. Its first fund was $200m (€164m) and closed in 2003. The size was ideal for accommodating deals where sellers were tidying up their portfolios, rather than moving out of the asset class. Investors approved of the funds' returns and Greenpark raced to close a second fund in a matter of months. The €350m was raised faster than expected – mostly from existing investors.

Alongside the change in deal size, there was also a shift in the reasons for selling, which affected the speed of transactions, according to Groen. Vendors changed from being distressed sellers into undertaking deals for strategic reasons. This affects the time frame of sellers, who are not in a desperate rush. Once a board has decided to sell, it moves on but not in a 'needs to be done yesterday' dash.

The move towards sales as part of a programme of portfolio management has been one of the pressures leading to an increase in prices: vendors can hold out for the best offer. Secondary players historically made their money by buying from distressed sellers at a deep discount. However, the asset's popularity has meant increases in competition for good-quality portfolios, further pushing up prices.

Greenpark's answer is to stick to its guns. You need to be disciplined in what deals you do. Deals are being done at a premium – but then the discounted secondary deal has always been given too much emphasis.

Ultimately, what any secondary player needs to focus is 'how do I make my return?' and that depends on what your expectation is. Discipline allows Greenpark to be selective and not end up in any large auctions.

To avoid auctions, Greenpark has concentrated on a proprietary dealflow gleaned by educating potential sellers on the benefits of a secondary sale. "We are all about finding a solution for the seller: we are investor friendly.

They have an issue and it can be done a number of ways. We find out what will suit them and structure the deal around them. Deals have become more interesting and more challenging."

"More sales end in bespoke packages – sellers produce a list of 30 funds and ask the secondary buyer to pick the ones it likes for a price. Greenpark analyses the funds and produces a package deal. On a recent deal we went through 15 or 20 versions of what the final portfolio might look like. And we provide an advisory and transaction service to a seller that may not have sold to a secondary buyer before."

The other element in the pitch to vendors is confidentiality, which is still a big issue for most. In contrast, other secondary investors are less circumspect. One at a rival house claims that it suits Greenpark not to shout about its deals, especially as the competition has increased and deals are perhaps not as easy to come by at the right price. But Greenpark is confident that it has an edge in the ability of its team to accurately assess the value of an asset.

"The beauty of coming in as a secondary is we come in year four, five or six of an investment's life. We can see the record of the companies and can see more easily where they are heading." Price is, however, still central to a deal. If the fund managers are top-decile performers but the deal is too expensive, we cannot do it. If it is a mid-level manager but the price is right, we will. Obviously you pay too much on a deal and you won't make money.

Secondary deals involving top-decile performing managers do not necessarily perform better than mid-decile performers. There are examples of funds losing substantial amounts of money and, after making management changes, selling on at a substantial profit in spite of the original team.