PEI Alternative Insight

PRIVATE EQUITY INTERNATIONAL

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PUBLISHED: 03 DECEMBER 2013

L-GAM targets long-term approach

L-GAM, a recent Bain/ Investcorp spin-out, has created a fund structure that enables it to own companies for longer

Establishing your place in the market as a first time fund can be tough – especially in the current challenging fundraising climate. An innovative approach is often needed to attract investors' attention.

L-GAM, a new firm that recently announced its establishment "with existing capital commitments of €240 million" (it declined to specify whether this constituted a first close), has done exactly that. Its founders – Yves Alexandre, a former managing director at Investcorp and Ferdinando Grimaldi and Felipe Merry del Val, two former managing directors at Bain Capital – have come up with a special fund structure, which they believe gives them more flexibility.

The firm, which has the Princely Family of Liechtenstein as a cornerstone investor, says it wanted to remove some of the rigidities of a typical private equity fund. Its flexible mandate means L-GAM has the ability to invest throughout the capital structure, targeting both debt and equity. It can also take minority and majority stakes and target deals all over Europe in different strategies.

But perhaps most importantly, it is understood the firm's investment vehicle has a 15-year life instead of the usual 10 years – because it doesn't want its investment decisions influenced by the need to return capital to LPs.

"The fundraising cycle effectively means that once you have owned a company for about five or six years, you'll be less inclined to make an add-on acquisition because you would have to stay in the business for another two or three years to see the results," says Merry del Val. But doing that add-on acquisition in year six may be in the best interests of the company. As he puts it: "You don't want to sell your winners too soon".

L-GAM claims this approach makes the firm more attractive to entrepreneurs. "Speaking that language means that the discussions with entrepreneurs are much more about how you can grow EBITDA, rather [than] how to extract the last bit of cash out of the business," says Merry del Val.

L-GAM will typically invest in deals between €20 million and €50 million, although it can also employ co-investment when it sees larger deals. It currently sees most opportunity in Southern Europe, according to Alexandre, where there's "a major dislocation in access to capital". SMEs do not have access to the bond market and rely on financing from local banks – whose lending is currently constrained, according to the firm. L-GAM therefore doesn't focus so much on sectors but more on 'situations'. "It may be a company that's in a portfolio of a bank. Or a company that has difficulty renegotiating its financing. But if could also be a company that needs growth capital for add-on acquisitions," explains Alexandre.

L-GAM declined to comment on fundraising, but it is understood to be still in discussions with investors with a view to raising up to €325 million. But while raising capital can be tough for a first time fund, L-GAM's team has the advantage of having worked closely together for a number of years; according to the principals, they worked on deals like Investcorp's €200 million acquisition of ceramic manufacturer Esmalglass, Investcorp's investment in IPH Group, and Bain's investment in Atento, a Spanish call centre business.

The theory is their new fund will give LPs a better deal. As Merry del Val puts it: "We are trying to take our experience from the industry and improve the limiting factors that a traditional private equity investment structure has."