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Epiris and Electra finalise divorce

Epiris has officially ceased managing Electra Private Equity's portfolio.

Epiris, the mid-market manager formerly known as Electra Partners, has officially severed ties with Electra Private Equity.

The firm ceased managing investments on behalf of Electra on 31 May. It received a £34m termination fee.

Epiris was served notice 12 months ago following a review by Edward Bramson, the activist investor who is now chairman of Electra Private Equity.

Through his Sherborne Investments vehicle, Bramson began building a stake in Electra in early 2014. With the promise of an additional £1bn of shareholder value at lower risk, he eventually gained a seat on the board in November 2015.

Over the past year Epiris has sold the bulk of its portfolio. Since October alone it has generated more than £1.5bn in total realisations, which include the 5x return on AXIO and the 6.5x return on Treetops Nurseries. In its final deal before the split Epiris sold the PINE Unit Trust to USS for £95m, resulting in a 1.9x return and 14 per cent IRR.

£1.5bn

Epiris has sold more than £1.5bn worth of assets since October

The firm is currently raising its debut independent LP fund. It will invest between £40m and £150m in companies valued up to £500m, and is understood to have passed the halfway mark towards its £1bn target.

Managing partner Alex Fortescue told *Reuters* last month that the firm would focus purely on UK deals. "We have a pipeline of interesting opportunities which pick up where we left of," he said.

EQT closes European mid-market fund at €1.6bn

The vehicle is led by Jannik Kruse and has made four investments so far.

EQT has closed its European mid-market fund at its hard-cap of €1.6bn.

Some 80 per cent of the capital was provided by investors in prior EQT funds.

LPs include AP4, AP6, BNP Paribas Fortis, Danica Pension, Danske Bank Wealth Management, DnB Private Equity, eQ Asset Management, GoldPoint Partners, HarbourVest Partners, Neuberger Berman Private Equity, SEB Asset Management, Teachers' Retirement System of the State of Illinois and UBS Asset Management.

80%

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The vehicle, led by partner Jannik Kruse, will make control or co-control investments in companies with enterprise values of €100m to €300m based primarily in northern Europe.

It has completed four deals so far: Dutch IT services business TransIP, German cyber security company Ultimaco, Spanish fiber-based services provider Adamo and Danish pharmaceuticals business Fertin Pharma.

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Secondaries: the good, the bad and the ugly

The importance of secondary buyouts as an exit alternative has increased. Currently, almost half of all sales are transacted to another fund. Great that the pool of potential buyers is expanded. However, selling to another financial investor has its own post-deal organisational challenges for the new owner and management alike. Primary deals require a different management style and leadership competencies than secondaries. The lure of primaries is the heavy-lifting needed to professionalise management processes and achieve the value creation plan. This may mean significant management changes. Whereas with secondaries, the low-hanging fruit in governance and management alignment is often gone and value creation is about resource allocation and execution.

Primary sponsors are therefore generally hands-on and assertive. This is an issue, both for new owners and management after a secondary transaction. The acquirer often expects the management to take more responsibility than they are used to. As a mid-market fund manager recently lamented about a new company management, "They asked us what the new strategy is!"

Another overlooked organisational challenge for secondaries is the abrupt step-change in risk profile that takes place at closing. Pre-deal, investment is throttled, cash and profit maximised: no risk. Post-deal, the new owners want to see investments and improvements that will produce the desired returns by the next flip. Many managers struggle with the schizophrenia of the secondary transaction because they fail to catch the shifting risk profile of the seller and buyer.

Like any merger, with secondaries the greater the governance difference between buyer and seller, the greater the potential benefits…and risks. The key to success is proper orientation and on-boarding of new owners and management to make roles and expectations explicitly clear from the beginning – to minimise the risk of misunderstandings that can lead to a breakdown of trust and collaboration.

Leading funds are investing more upfront to get the teamwork and chemistry right in the relationship before launching the value creation plan. Best practice secondaries includes psychometric testing – not only of the management team, but also investment managers. What's prescribed for the patient is often good for the doctor.