



## Organisational due diligence – turning risk into opportunity

“We are market, market, market before signing, and then management, management and management after signing,” recently commented a blue-chip fund operating partner. And, he is right. Traditionally, deal teams have focused on validating markets and business models in due diligence. But, times change.

We note a big uptick in the attention being paid not just to the senior management pre-deal, but also the mechanics of how a target company’s organisation works. And there are good economics behind this. The deal markets are so competitive that post-transaction speed-of-execution has become a differentiating factor driving acceptable IRR. Unexpected delays in the implementation of the value creation plan can blow out a fully-priced case. So, proper pricing of organisational factors that drive speed of execution has become critical.

And, with a systematic approach, identified organisational risks become opportunities since management is one thing that can be changed quickly post-deal.

The problem for sponsors is that pricing organisational risk is tough. There are many factors which drive organisational performance that need to be taken into account. No surprise that many funds do all the standard DDs, hope for the best, and are surprised when they get the worst. With hyper-competitive deal markets: how to assess the diverse factors with very limited access?

In reality, there is a lot of information available on the target organisation, even in the toughest auction. However, it is generally not organised in a way that enables connecting the dots on the key factors that make the difference. Besides the data room, there are many interactions between the deal team, its advisers and the company that can be leveraged if used wisely. These touch points offer valuable insights into how the target organisation really works, strengths and weaknesses that drive post-deal speed-of-execution.

Humatica’s “accelerate” service leverages available information and a proprietary database of management practices and behaviours to go beyond management’s spin and properly price organisational risk. Results have enabled sponsors to adjust deal structures and change post-deal plans to avoid organisational risk and delays. And, as any sharp dealmaker knows, the impact on equity value of moving liabilities to the asset side of the ledger is also nice.

## BC Partners cashes out in Altice USA IPO

The NYSE float has delivered the firm a 2.1x return.

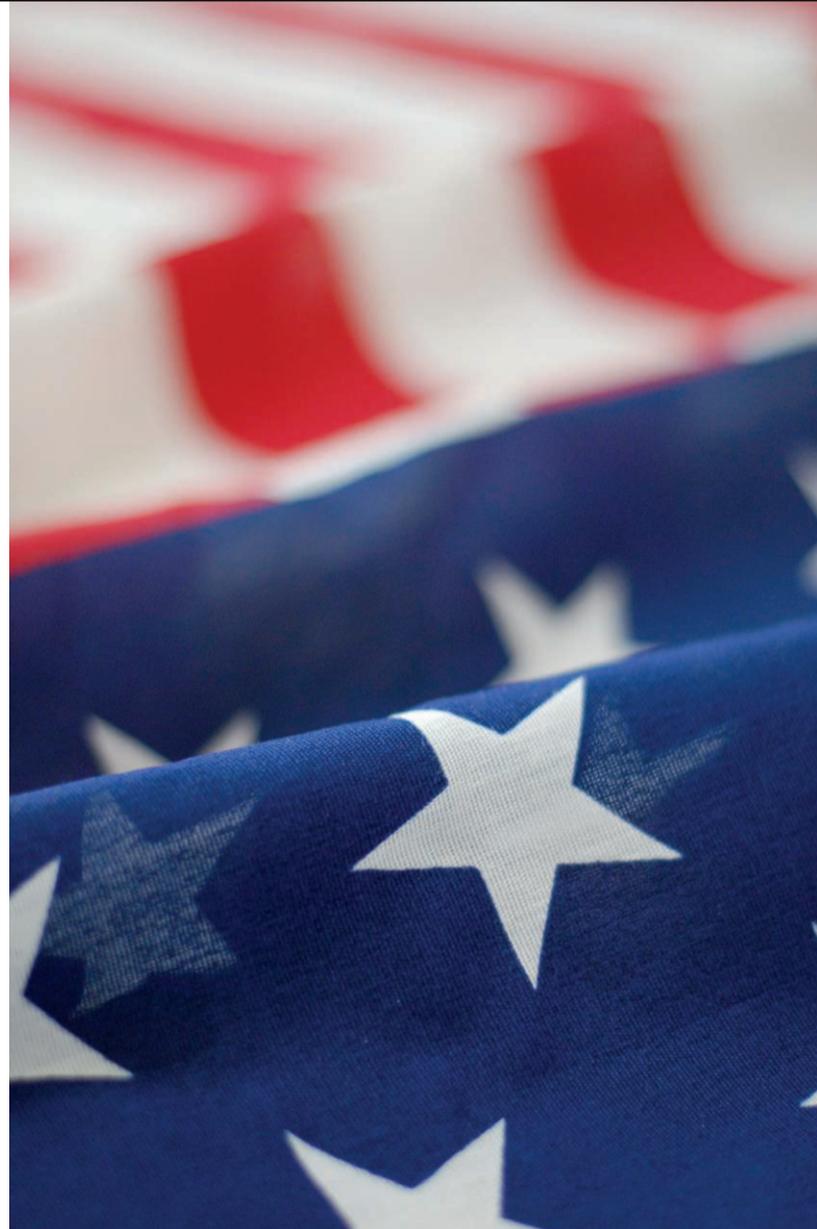
BC Partners has made a 2.1x cash return from the sale of part of its interest in Altice USA as part of its recent IPO.

The telecoms multinational was listed on NYSE last month. The business raised \$1.9bn (€1.7bn), representing a market cap of more than \$20bn.

BC Partners sold about a third of its shares in Altice USA via the IPO. The firm and its co-investors owned around 30 per cent of the business prior to the IPO.

The pricing for the IPO gives BC Partners’ various investments in businesses that are now part of Altice USA a value that would represent a 3.2x return and a 45.2 per cent IRR. BC Partners’ LP co-investors in the business include CPPIB.

Altice USA was created in 2016 from the bolt-on of US telecoms business Cablevision to Altice NV’s Suddenlink Communications. BC Partners backed Suddenlink in 2012 through its ninth fund. The firm sold Suddenlink to Altice NV in 2015, but retained a stake in the business.



## BaltCap hires two to lead new £50m growth capital fund

Baltics-focused private equity firm BaltCap has launched a growth fund, targeting €50m.

The new fund will invest sums in the €500,000 to €3m range in 15 to 20 companies in all three Baltic countries:

Estonia, Latvia and Lithuania.

The firm has appointed two additional investment professionals – Heidi Kakko and Marek Kiisa – to work on the fund, both of whom will

join the firm as partners and be based in Estonia.

Kakko has held a number of roles involving SMEs in the Baltics, including at the Estonian Business Angels Network and Tallinn Science

Park. Kiisa joins from Estonia and Sweden-focused private equity firm Astrec Invest, where he was a partner.

BaltCap held an interim close of its second private equity fund at €85m in 2014.



## Direct lender Pemberton to launch “flexible finance” strategy

The firm will provide more than €1bn of junior lending to companies with operational issues.

**Direct lender Pemberton will raise funds to invest in a new “flexible finance” strategy.**

The firm hopes to equal or surpass its €1.2bn senior fund, and will provide junior lending and loans to companies with operational issues.

The strategy will target mid-market companies across Europe with turnover between €75m and €1bn. Pemberton expects 50 to 60 per cent of capital to be lent in non-sponsor deals, but anticipates that there will be significant investment in private equity-backed businesses.

Around 20 per cent will be deployed in the UK, and there will also be a focus on France, Germany and Italy.

The strategy will be managed by partners Robin Challis and Ben Gulliver, both of whom joined Pemberton last year.

“What makes this strategy so current and so appealing is that it’s meeting needs borrowers have that banks, due to regulatory pressures, are unable to meet”, said Gulliver. “We hope for higher returns with lower levels of leverage than you’re seeing in the unitranche market”, added Challis.