WESTBRIDGE CLOSES FUND II AT £140M

UK mid-market manager wraps up sophomore effort

By *Sam Birchall*

Westbridge Capital has completed the final close of its second fund (Westbridge II) at £140m (€158.1m), surpassing its £100m hard cap.

Commitments came from both existing and new investors alongside WestBridge's industrialist Strategic Investor Group. WestBridge II will invest in 10 to 12 UK SMEs with enterprise values of between £15m and £40m.

In the past nine months, the fund has already completed three MBO's. These include AJM Mobility, which provides mobility and assistive technology equipment, APEM, an aquatic-focused environmental consultancy and Wilcomatic, which distributes vehicle wash systems.

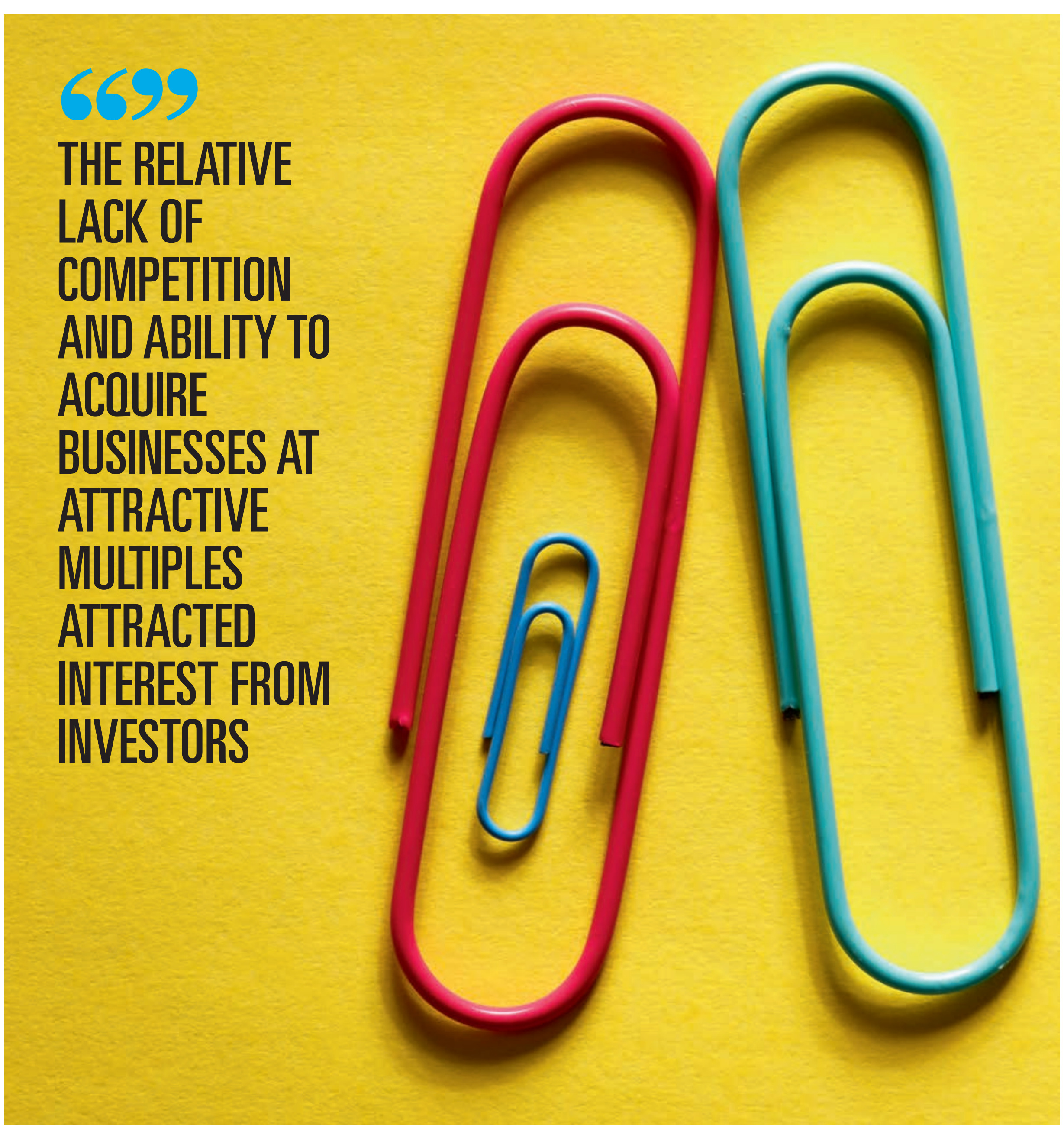
The fund is almost 20 per cent deployed with a strong pipeline of new investments that may complete later this year.

Since a first close in early 2018, WestBridge has worked to expand and develop its investment team in order to demonstrate the firm's ability to source and invest in attractive UK businesses.

Guy Davies, managing partner at WestBridge, said: "Having successfully invested our first fund and delivered three exits at an average of 4x money multiple, we set out to raise £100m from our existing and new institutional LPs."

James Wakefield, chairman at WestBridge, said: "The relative lack of competition and ability to acquire businesses at attractive multiples attracted interest from investors."

In recent months, Westbridge has expanded its investment team by hiring Tim Whittard, James MacLeay and Edward Minton. Additional team hires are also in progress, the firm said.



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Compliance vs. Profits - the PE Challenge

There is a battle raging in private equity today. As the industry matures, and with full-price valuations, funds are coming under increased scrutiny and compliance requirements. Does this enable or jeopardize a continuation of historically high returns? The answer depends on the ability of a fund to reinvent itself and transform from within. We notice large differences in the way sponsors are dealing with the new realities in the industry.

The traditionalists are grudgingly adding all the operational and compliance roles required by LPs. The window dressing gives them a passing score and gets the cash. However, internally, out of sight, its "business as usual". The deal guys call the shots. And, it's understandable. In a high-yield PE market: the traditional model was very successful over many years. However, we are no longer in a high-yield market. Corporate credit is maxed-out and all the easy stuff is already priced in. Value creation has become a tougher operational slog during the holding period - something deal-makers are ill equipped to manage.

However, some funds, led by the largest and a few emerging specialists are embracing the advantages of enlightened governance to industrialise super returns. Advent's Conor Boden recently put it succinctly: "The challenge is how to drive returns systematically, not just 1-off in the industry". These funds have found the recipe to mix the boldness needed for entrepreneurial deal-making with the patient competence required to unlock value post-deal. It's a tricky combination, and like all change, it starts at the top.

The avant-garde funds universally have visionary leaders at who have connected the dots on investing in the next decade. They challenged their own partnerships to reinvent their cultures. Without this faith from the top, forget it.

The implications of entrepreneurial governance impacts all aspects of a fund – structures, roles, deal-making and operational processes, as well as compensation. The leaders, like Partners Group, have taken this to heart. As Christian Unger recently explained, their Industrial Value Creation team heads have an equal vote in the IC and take the views of external industrial advisors into account. They also have an independent unit proposing NEDs. He admits: "its difficult to establish entrepreneurial governance as the deal partners are obliged to work as part of a team, and both the deal and operating partners have equal access to carry". Conor Boden of Advent concurs: "in the future, operating partners will have more say in the investment process."

So what is the end-game? Where are these trends going? And, what will the fund of the future look like? Actually, it's clear. There is an on-going convergence taking place between traditional deal-making, post-deal transformation leadership and a broad set of functional consulting disciplines. The successful fund of the future will be a true partner of entrepreneurial portfolio company leaders, who acts as a catalyst to bring different expertise to bear and unlock performance improvements for value creation. And, in this new world of cash conscious portfolio management, true partners don't fly business anymore. Buckle-up and stay tuned...

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