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# PRIVATE EQUITY INTERNATIONAL

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FOR THE WORLD'S PRIVATE EQUITY MARKETS

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Julian Mash of Vision Capital

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PRIVATELY SPEAKING

## The Vision proposition

*Julian Mash, founder and CEO of Vision Capital, buys private equity-backed companies en gros. It's a complex technique - and according to Mash, as **David Hawkins** and **Philip Borel** learned in September, the private equity industry needs it more than ever*

PHOTOGRAPHY BY JAMES CLARKE

“I think,” corrects Julian Mash, “that is a little simplistic.” It has just been put to the founder and chief executive of Vision Capital that his firm’s specialty of acquiring groups of companies from other private equity firms could be described as “buying the good, bad and ugly assets” left in the “tail-end” of a fund. Clearly Mash has heard this kind of talk about his investment approach before. He has developed a nuanced message to help others – potential vendors, management of target portfolio companies and investors, to name three key interest groups – better understand the Vision Capital proposition. He clearly relishes the opportunity to explain and does so with great energy and conviction.

Fundamental to the proposition, which others often describe as “direct secondaries” – is the curious, illiquid, long-term life cycle of private equity investing. In Mash’s view, any private equity fund will change from being a buyer of assets to a seller of assets midway through its roughly 10-year life cycle. And for those companies still in the fund during the second half of that process, it will become increasingly difficult to achieve medium to long term objectives with an owner that is necessarily thinking more short term. While the company’s management may be wanting to map an investment plan for ongoing growth, the fund’s manager wants to focus on how the company best be prepped for exit – and contribute to the fund’s performance for its investors.

#### VOLATILITY, LIQUIDITY, VALUE

An extra dimension to this cycle has been added thanks to the upheavals in the world’s financial markets following the collapse of Lehman Brothers in 2008. Clearly someone who regards most absolutes as suspect, Mash nonetheless breaks the turmoil into three distinct phases: pre-Lehman being up to 2008, then the crisis years of 2008 and 2009 and then post-crisis from 2010. Besides this chronology providing the answer as to why Vision did not invest in ‘08 or ‘09, the monetary loosening that took place as a response to the crisis and which created an extraordinary low interest rate environment meant that the private equity industry became becalmed. Vendors, bankers and fund managers all could – and did – choose to watch and wait. “Liquidity and



volumes collapsed long before prices changed and that has been a feature of the 30 years I have spent in private markets: that liquidity is more volatile than value,” declares Mash. “And you have to have liquidity in order to get price changes.” Sitting in a sparsely decorated meeting room in Vision’s Jermyn Street offices in London – minimal art on the walls, no tombstones on the window sill – Mash has by now warmed to this theme, and again the wish to elucidate properly what Vision is about becomes apparent. The inference is that too many people have failed to grasp its full meaning too often. And too often they have assumed that it is essentially a discount play where what you pay defines what you can deliver. Likewise you get the sense that Mash has had to reassure vendors

that there is no stigma attached to selling a basket of assets in an old fund in one go to one buyer. “This is nobody’s fault. This is a market architecture thing. This is not a mistake,” he soothes. “This is just how the landscape works in a private equity industry that operates on serial funds. Every company has its time. Every fund has its time and there is a cycle to it – which has massively gone into slow motion over the past three years.” And again, as to that suggestion that Vision will buy the good with the bad: “We view each material component of a portfolio as its own investment – we are not trying to buy forests instead of trees, and we’re not buying assets we don’t like. We are focused on

and benefits of significant gearing, Mash says he has never liked it: “We are all about re-energising companies and supporting growth: and you can’t do that if you are too highly levered. So we don’t use a lot of leverage. Our average leverage is only three times EBITDA if you look at the 40 companies we have invested in over the last few years.”

#### FLEXIBLE, OPERATIONAL

Besides the reshaping of the private equity industry itself, Mash also predicts that the banking industry is going to offer considerable acquisition opportunities as it tries to get its house in order for the regulators, tidies balance sheets and divests what is non-core. The acquisition by Vision of a group of six companies with an enterprise value of €375 million in May this year from Italy’s Banco Popolare

is a case in point: the bank was refocusing on its core consumer banking franchise and wanted a clean and hopefully elegant exit from these holdings. Mash offers a sound bite: “We seek to achieve multiple sales for the seller in the least conditional way.”

A vendor who earlier this year sold a portfolio of businesses from a maturing fund to Vision says the process was fast and efficient, and the outcome positive: “We initially set out to sell the assets individually, but these things take time and resources. Yes we could have achieved better pricing, but we wanted to get on with investing the new fund so net-net-net, selling in one piece tuned out to be the better option.”

Understanding the Vision Capital strategy (versions of which are also the

main focus for Nova Capital in London and W Capital in New York, and several generalist secondary houses have also developed a taste for it) doesn’t simply extend to what kind of assets are purchased and why. The how matters too: unusually for a private equity fund manager, Vision assumes that a transaction will be funded in part by capital from its own funds and in part from direct investments made by investors who may also be limited partners in those funds. This means the size of an investment can be anywhere from €50 million to €1 billion.

For Mash, the resulting flexibility is valuable to both manager and investor: “We typically have a fund running and the fund takes a stake in everything we’re doing and we adjust vintage and company balance within the fund by supplementing with capital that comes in on a deal-by-deal basis. And we are offering investors less J-curve [on fees], more choice.”

#### FUND SIZE

Mash reports that in investing the last fund slightly more capital came in as co-investment than was invested by the fund itself. The fact that Vision can harness extra firepower to swiftly execute a

their value creation potential as individual companies.”

#### RE-ENERGISING ASSETS

The firm is set up to invest on either side of the Atlantic and currently owns companies in the UK, the US, Barbados, Brazil, Canada, Germany, Italy, Sweden and Switzerland. Lately, investment activity has been picking up pace, and although Mash sees the latter part of 2011 as offering numerous reasons to be cautious at the macro-level, he is also confident that some factors can only play out to Vision’s benefit. He senses that the post-2008 private equity industry is going to offer up more opportunities as some managers assess their capacity to manage out a fund’s portfolio in a low-growth, credit-squeezed environment and conclude that a group sale makes most sense. Moreover, a meaningful number of funds will contain portfolio companies that are carrying significant amounts of leverage: assets bought in the pre-crisis days when debt was cheap and growth projections bullish. Today the managers of these businesses will have a different view of the world – and their owners may well be looking at things differently too. If Vision Capital can step in and liberate both parties from a set of circumstances that is frustrating everyone then the likelihood of transacting becomes far more real. Mash describes a target company with “a horribly over leveraged–balance sheet where the company’s management have been fighting fires with the financing structure quite often for a protracted period of time and – if they are human – they are going to be tired by that.” If that company can be de-levered and the investment horizon lengthened under a new owner, then the potential to re-energise the asset is going to be much greater: “You can’t get growth if management have to be managing the debt first.” Although few private equity firms today still celebrate the uses

*“We are not trying to buy forests instead of trees, and we’re not buying assets we don’t like”*



transaction is an important message to vendors – and a competitive advantage: “We are less sensitive to the fund size because we are not solely dependent on the fund capital. It does not define the scale of the business as it would in another business.”

In other words, Vision can punch well above its ostensible weight. This extra capital muscle also helps bind participants that bit closer, cementing important relationships: “There’s nothing like doing a deal together to make active partnering a reality,” confirms Mash.

Vision is presently investing Fund VII, which closed in January 2009 on €676 million, a figure markedly lower than the original target total of €1.5 billion. (Fund VI, the firm’s first ever commingled offering after years of funding each new investment on a deal-by-deal basis, closed in 2006 on €350 million.) The closing date is significant of course and it’s easy to see how corralling investors at a time when many were watching the values of their entire portfolios slide south must have been difficult, but it also suggests that the Vision model is something of a minority sport. Once embraced, investors stay close – Mash speaks of a 90 percent re-up rate from existing investors for Fund VII. According to Vision’s 2010 newsletter, 53 percent of the fund’s commitments came from funds of funds. Pension schemes, financial institutions and endowments contributed 24, 12 and 11 percent respectively. Since inception, the firm has

*“We are all about re-energising companies and supporting growth: and you can’t do that if you are too highly levered”*

raised more than €1.8 billion of equity capital.

Commenting on the size of Fund VII, one investor who has backed the firm for the best part of a decade says he doesn’t mind that it is smaller than originally envisaged. “It’s hard for this model to support a very large fund, because deal flow by definition is lumpy. Julian has had to strike a balance between viable fund size and flexing up with co-investment when necessary.”

Do the performance numbers add up? When quizzed about returns to date Mash is emphatic on two things: the first is that they

have been able to deliver “responsible, superior returns for the risks we take”. And the second is that you don’t discuss specific IRRs or multiples with journalists.

It is also intriguing to contemplate how the firm deals with transactions that typically see a bundle of companies arrive simultaneously in the portfolio and how it then goes about matching the new arrivals with asset management skills – a challenge that is undoubtedly greater for Vision than it is for traditional buyers of single businesses. The impression is that Vision has learned how to handle this over time, and to apply practical measures to make a deal manageable, such as leaving existing financing structures for each company in place and returning to renegotiate them at a later date.

With 11 partners and 42 personnel in total, of which eight are based in New York, where the firm opened an office last

*“Fund size does not define the scale of the business as it would in another business”*



## Julian P. V. Mash

- Graduates in 1983 from Cambridge University, MA in Economics.
- Joins the investment banking division of Goldman Sachs that year, working on mergers and acquisitions, buyouts, corporate finance advisory and structured financing
- Moves to Smith Barney in 1988 and becomes deputy head of European investment banking, responsible for all private markets activity and business development
- Leaves Smith Barney in 1991 to co-found corporate finance boutique H&M
- Founds Vision Capital in 1997
- 2006: the firm forms Vision Capital Partners VI, its first commingled fund with €350 million in commitments
- 2009: Vision Capital Partners VII closes on €686 million in 2009
- 2010: New York office opens
- 2011: Vision has €1.1 billion currently under management, having invested €1.4 billion of equity in more than 40 businesses to date

year – there is also no question that the team’s work ethic is being harnessed to maximum effect. (When Mash recollects his earlier career at Goldman Sachs he says it was there that he “learnt how to work and a hunger for excellence was ingrained”, and one senses that there are times when the long days and nights of Wall Street are emulated at Vision Capital.)

### KEY MAN MASH

The firm’s evolution evidently invigorates its CEO, in part on account of improvements at an institutional level and in part the sense of progress that comes with it at a personal level. Mash doesn’t like things to stand still and although he expresses little interest in scaling Vision so that three years hence it would dwarf its present manifestation, there is also the impression that there is a lot still to do. Some of that is to do with what Vision does post-acquisition. “We have learned some hard lessons that have made us a better investor. The risk is not being operational enough: managing strategic change in the boardroom is typically too narrow. You need to go deeper.”

A lot of it is also to do with Mash himself, clearly still the defining force within the firm. Asked how his role is shaped today, he quickly sketches a range of key activities: “My core responsibilities are chairing the board, chairing the investment committee and direct responsibility for certain key external relationships such as various larger investors who have been with us over many years – and helping improve the way we operate.”

He pauses, mindful of how all-encompassing this sounds. “I very rarely do the execution negotiations with vendors but I will be active in helping my partners – to the extent that they need it – leading up to the investment committee process,” he points out. And then adds: “I also chair our portfolio management committee which is the other key governance structure alongside our investment committee.”

So quite busy then – and still resolutely at the helm of the business he has been shaping since its foundation in 1997.

Anyone who has met Mash will likely describe him as a forceful and strong-willed individual. Unsurprisingly, long-standing LPs in Vision’s funds have told *Private Equity International* that backing the firm comes with a certain key-man risk.

“It’s a good question,” comments one. “Julian is a larger than life character, and he makes no bones about it. There has been some turnover in the early years too, usually over differing perceptions of people’s relative value to the franchise. But ultimately for us, the potential upside outweighs the issue of Julian’s dominance, recently some very good people have arrived, and there’s now more stability in the partnership.”

Another LP supporter of the firm agrees: “It has taken some time for the key man risk to go down. What you have now is a strong CEO with a clear vision, no pun intended, and a team that is stronger than ever. Vision today has deep skills across the bench.” The skills will be needed to expand the business further. Mash was an early mover in a line of private equity investing that he believes is now set for a growth spurt as the industry continues to adapt to new circumstances. He has no doubt that Vision is well positioned to make the most of the opportunity he insists this change will create. So expect him and his colleagues to remain hard at work. And should you run into a member of the Vision team any time soon, be careful with talk about the bad and ugly. ■