3 questions to smart minds

Mood barometer at the SuperReturn in Berlin

For this 3 questions to Christoph Kauter

Beyond Capital Partners in Frankfurt

Photo: Christoph Kauter

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Eight years ago, Christoph Kauter went live with the mid-cap private equity fund "Beyond Capital Partners" in Frankfurt. Over two fund generations, Christoph and his team have completed around 20 company acquisitions, most recently raising EUR 115 million with their second fund. The third find is in fundraising. He reports on the mood at the "SuperReturn" investor conference in Berlin last week in the FYB 3 Questions interview.

For this 3 questions to Christoph Kauter, Founding Partner of Beyond Capital Partners in Frankfurt

1. What was the mood like at this year's SuperReturn conference in Berlin (the largest, international alternative financing conference)?

From my point of view — and I have been attending the SuperReturn in Berlin every year for more than ten years now — it was as full as rarely before. You can tell that investors from all over the world are drawn out again, with the goal of meeting like-minded people. But that's just the quantitative view of it. What was the quality, i.e. the mood: I had dozens of conversations with GPs, LPs and consultants and I can say that the mood was nuanced and hopeful. Differentiated certainly also because the macroeconomic development as well as the interest rate environment influence the different strategies of the GPs — also depending on the transaction size — to different degrees. The conclusion is that good companies can continue to be sold at high prices, while other investments that are only "OK" or still have improvements to make are slower to exit than they were a year ago. The market is in a transitory phase: everyone is more cautious, fundraising is slower across almost all fund types, and higher interest rates and thus refinancing costs are reducing potential leverage. Offensive transaction processes are therefore less common than they were at the beginning of 2022.

However, a look at the past is also worthwhile here: in the past, deals were also implemented at comparable interest rates in private equity and M&A. So I think it will probably take another quarter or two to get used to the environment, and then investors' money will find its way back to the investments. However, the issue of rapid value creation through the pure leverage design of the transaction is likely to remain challenging in this context

2. You are currently fundraising for your third fund. What is the process like? Is fundraising really as difficult at the moment as you keep hearing?

Almost everything continues to take longer. As an initial “self-funded self-financed GP” we know rather complex fundraising situations anyway, so it is easier for us than before, as we have a very familiar investor base with our existing LPs. We are continuing with our successful investment strategy for the new fund, so we expect a solid first closing in the near future. My feeling from many LP conversations in the context of fundraising is that the LPs are also more selective and give “new” GPs like us a chance when existing GP relationships with them no longer run as expected on the performance side. Another keyword is certainly “Modern Private Equity” which, in my definition, is characterized among other things by the fact that the GP deals more deeply with the issues of lasting value creation in the portfolio companies and more consciously not only designs business development strategies for the investments, but also ensures an implementation that is sustainable. We are convinced that, with this in mind, it always makes a great deal of sense to recruit appropriate professionals to the portfolio companies on a permanent basis, rather than just bringing consultants on board for the short term.

3. Its focus is on medium-sized companies. How do you implement the topic of sustainability in the process?

Sustainability has always been an important component in the German SME sector. The entrepreneurs just didn’t know until recently that the whole thing would go under the term “ESG” (environmental, social and governance). The “S” and “G” have always been absolute value drivers for entrepreneurs and investors alike. The “E” is also a home run for asset light companies — our sweet spot — as the holdings generally have few environmentally impactful activities and already meet the vast majority of the criteria. For us, sustainability is understood as a uniform, comprehensive 360-degree process that we want to exemplify as an investor. In this way, we serve as a role model for entrepreneurs and want to convey the ESG understanding and its logic to the entire organization. For many of our portfolio companies, it also brings a direct competitive advantage to address sustainability issues intensively and at an early stage and to communicate this clearly to customers. In order to track this on a fact-based basis, we have helped all companies to implement a continuous ESG assessment in order to evaluate the associated improvements on a quarterly basis. The integration of these targets into the GF compensation is a logical component here. We have placed the topic at management level and, as of this year, have also hired a Head of ESG, who, with an eye on the investment team and ESG, is the perfect link in the implementation of sustainability goals.

About Christoph Kauter

With 25 years of business experience, Christoph is a seasoned expert in private equity, investment, M&A, strategy and business development. He has held board positions at private equity firms since 2008 and has a proven track record in the acquisition, operational development and exit of dozens of mid-sized companies in the DACH region. Since founding Beyond, he has established the company as a renowned and active GP in the German-speaking asset-light segment in the lower mid-cap range, with institutional investors as LPs in their funds.