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GP Profile: Small-cap specialist Beyond Capital Partners in active deployment and exit mode

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- Three of six companies in 2020-vintage fund being prepped for exit
- Acts as “facilitator of PE firms buying founder-led businesses”
- Plans to stick to its roots with EUR 5m-EUR 25m equity tickets

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Germany-headquartered small-cap-focused sponsor **Beyond Capital Partners** (BCP) has deployed around 20% of its EUR 180m third fund and is lining up exits from its earlier vintage funds, Managing Partner Christoph Kauter told *Mergermarket.*

“Many GPs are waiting to be both buyers and active sellers,” he said, but noted that BCP has seen good deal flow this year. The firm is evaluating a handful of proposals and could acquire one or two more companies in 3Q this year, he said.

BCP firm held a EUR 180m final close for its third fund in April this year. *Beyond Capital Partners Fund III* is backed by all existing *BCP Fund II* LPs plus some new European funds-of-funds. The fund will make eight to 10 platform deals, he said.

Its 2020-vintage second fund held a EUR 115m final close in April 2021. The GP is preparing three of the six remaining platforms in that vehicle for an exit, Kauter said, without disclosing which three.

Fund II continues to hold optometry and audiology chain **Ounda**; video surveillance and data communications firm **Xortec**; ecommerce business **Wiethe Content**; industrial cleaning company **Hoffmann Group;** medical supplies retailer **ANK Group**; and software and IT firm **Soft & Cloud**, according to *Mergermarket* data.

The firm’s EUR 25.5m, 2017-vintage *BCP Fund I* has two remaining assets, said Kauter. These comprise lighting components distributor **LDBS Lichtdienst**, which it acquired in 2015; and music events organiser **BigCityBeats**, which it bought in 2018, according to *Mergermarket* data.

BCP typically builds up to exit its portfolio companies after they have reached certain milestones that make them a candidate for a new owner. “The longer you hold a business, the more realistic an exit is,” Kauter said. “We care less about IRR and more about money returned.”

The aim, he said, is to continue to deliver around 35% EBITDA CAGR in the first couple of years post-acquisition. If that slows down, as the business needs to digest acquisitions, or if the fund no longer has equity reserves for add-ons, or the portfolio company’s ongoing expansion were to include European or cross-Atlantic M&A, this is not the firm’s “ideal home turf”. But it might be ideal for a new midcap buyer or strategic buyer, he said.

BCP views itself as “a facilitator of PE firms buying founder-led businesses”, he added.

Software distributor **Ebertlang** is an example of BCP’s approach to exits, said Kauter. The firm made an unlevered return on its invested capital of more than 3.2x in two years, and sold the business to **HQ Equita** in 2019 at a stage when it needed to expand its buy-and-build strategy across Europe.

Its latest fund deploys equity tickets of EUR 5m-EUR 25m, buying businesses at enterprise values (EVs) of up to EUR 50m and with EBITDA of EUR 1m-EUR 7.5m. The aim is to sell at an EV of around EUR 75m-EUR 200m, he said.

BCP typically makes all-equity deals initially, bringing in financing later on, said Kauter.

Small-cap edge

To source its deals, the firm has a 15-strong in-house team with direct access to 450 corporate finance and M&A advisory teams, including small boutiques, said Kauter. Around 80% of its deals are generated via a sellside adviser, with the remaining 20% being directly sourced, he said.

“Direct sourcing is hard in the small-cap space, because often the founder-sellers are not sure if they actually want to sell. With intermediaries, the sellers are often looking to stay involved and want a partner for their next step. We often work with the founder for buy-and-build as they know the market and the people behind the businesses,” Kauter said.

Buy-and-build is a key part of BCP's value creation approach, and it will continue to apply this strategy for companies in its second and third funds.

"When we buy a company, we think about what [that] platform would need to become a broader, better, more profitable business for its B2B customers," said Kauter. Based on this, BCP assesses how the competitive landscape will look, then clusters the businesses that it could acquire. The next step is then usually to make a direct approach for potential acquisitions, he said.

This strategy has stood the GP in good stead when raising funds, he said. "Particularly in the currently more constrained fundraising environment, LPs want to see a more modern way of doing PE, with GPs who are smarter and more aware of how to deal with portfolio companies, implementing value creation initiatives, not just leverage."

Such GPs "should have more easy access to fresh money from LPs", Kauter said, noting that others, who have not changed their approach, will have a tougher time in convincing LPs. "The dominant LPs always set the terms and as a smaller GP, you either hide or have to be ahead of the curve," he added.

BCP Fund III is one example of this, he said, noting that it is an Article 8+ fund within the EU Sustainable Finance Disclosure Regulation (SFDR), which was appreciated by its LPs.

The firm is moving further away from being considered an emerging manager now that it has raised its third vehicle. "In many ways we are an established GP in terms of how we implement our strategy, and we have a good reputation in the M&A and PE community," said Kauter.

The firm views itself as having "the right mix of what entrepreneurs are looking for", with the growth in its founder network a testament to this: 60 founders participated in its latest portfolio day, compared to just four in its first one.

"We don't intend to increase our future fund size to the EUR 500m-EUR 1bn fund territory, where all parties in a process have to compete with similar bids. We aim to stick to our roots, but focus on going the extra mile," he said.

by Harriet Matthews