Finding a niche

Marrying up what companies and their private equity backers want with what other investors want is paramount to the success of alternative lender Beechbrook Capital. Marc Mullen talks to its co-founders and partners, **Paul Shea** and **Nick Fenn**

In 2008, just as we entered the global financial crisis, Nick Fenn and Paul Shea got together to set up Beechbrook Capital. They had spotted a gap in the market for businesses looking for bespoke mezzanine finance and investors looking to allocate into debt funds. Twelve years on, with the ever-increasing shift to debt funds from banks in the EU and the UK, their thesis has been vindicated.

Beechbrook today remains 100% owned by management. It has raised around €850m of equity to date. "Steady progress so far," says Fenn. "And hopefully more to come as we continue in our niche."

There are three strands to the business. First, there are the European (including UK) sponsored debt funds, which provide bespoke lending to private equity buy-outs. There have been three such euro-denominated funds to date - the first fund was €100m and started being invested in 2010, the second, €150m, in 2013, and a further €200m in 2016. Second is the UK private debt funds - of which there have been two so far - that lend to UK non-private-equity owned, but privately held, family-owned entrepreneurial businesses. Third, there's the Irish SME fund, which was launched last year.

The businesses Beechbrook lends to have turnover of between €10m and €100m, EBITDA of between €1m and €10m, and the typical loan size is anywhere from €5m to €15m.

The fourth European fund is being raised now, with Fenn expecting that to close somewhere between €300m and €500m. It's a bigger fund because there are two sleeves to it - senior loans in addition to the mezzanine previously offered. The first close is expected in the second quarter of this year.

There is capacity for a couple more deals out of the third private debt fund before fund four is up and running. And the firm is around halfway invested from UK SME fund two.

"We're seeing a lot of opportunities when we market to private equity," says Shea. "We ask if they need mezzanine for their buy-out, and they've been saying, 'Not on this occasion, but we'd love some senior debt.' Our previous funds had higher return requirements for the capital we've raised from our investors." Beechbrook will not offer a mix of senior and mezzanine - it will be one or the other to avoid any conflicts of interest.

Shea says that by bringing in senior debt the firm is now appealing to more investors as well as sponsors: "A lot have moved their allocations to private debt, but most of that is for lower risk, lower return senior strategies, which historically we weren't offering to them."

IRISH EYES

What will the likely impact of Brexit be on a business like Beechbrook? There has been some compartmentalisation by investors, says Fenn (interviewed for *Corporate Financier* well before the global scale of the coronavirus crisis had become apparent): "It hasn't changed our investment strategy, but it has changed some investor appetites. Continental European investors are more inclined to invest in pan-European euro-denominated funds, and less inclined to take exposure to UK-only offerings. There's uncertainty, but I think equilibrium will be restored over the next few years."

The other effect of Brexit has been regulatory. Until now the funds have been marketed through Beechbrook's regulated UK entity, but with 'passporting' rights falling away, Fenn and Shea have set up an Irish subsidiary, fully regulated by the Central Bank of Ireland. "We've had to make changes to our plumbing to give us continued access to our client base of continental European investors," Fenn says.

In November last year, Conor Molloy joined as chairman of Beechbrook's new Irish SME fund (which is similar to the UK funds) and this made its first investment - a €7.5m finance package for fitness and wellness business Bio-Medical Research. It has recently made a second investment.

The gap in the Irish market is for loans of between €3m and €6m, says Fenn: "There are thousands of companies looking to borrow those sums of money, but

THE CO-FOUNDERS

Paul Shea and **Nick Fenn** co-founded Beechbrook Capital in 2008. Both sit on its investment, risk and valuation committees.

Fenn qualified as an ACA with PwC before moving into banking. Prior to Beechbrook he was head of loan syndication and mezzanine and a member of the management team at Mizuho, where he sat on the investment committees of its asset management subsidiary.

Shea has more than 15 years' experience in asset management, having worked in the investment banking division of Schroders before moving to MetLife Investments and then Mizuho.

PHOTOGRAPHY BY CHARLIE BEST

there are only three banks and very little private debt. A large asset manager would be frustrated as there is just not enough lending volume available to them, but for a niche manager like us it's right up our street."

BETTER ADVISED

Between half and two thirds of Beechbrook's new business in the sponsor-backed funds comes directly from its private equity relationships - the finance is to support a buy-out, growth capital investment or an acquisition the business is making. The remainder of introductions for that strategy, and materially all introductions for the UK SME and Ireland SME strategies, comes through Beechbrook's advisory network, which is tremendously important, which is why the firm is a long-standing member of the Corporate Finance Faculty.

"In continental Europe we have good relationships with private equity and are constantly trying to build new relationships with new firms," says Fenn. "In the UK and Ireland we're trying to reach out to advisers right across the country, not just in the bigger cities."

Fenn says it is important that the privately owned businesses Beechbrook is lending to are properly advised: "First and foremost, we want the business owners and managers to know what they're getting into. We don't want them to say later on they didn't quite understand what it was really going to be like. A good adviser will help translate for management, explain other options and the pros and cons. They are also helpful when it comes to process management."

Beechbrook now employs 35 people and has three separate investment teams, as well as a junior working across all three. There's a portfolio management team, then there's the local presence. Beechbrook has offices in Frankfurt, London, Birmingham and Manchester. London has Dutch, German, Nordic and Irish employees who support those markets, while Ireland has offices in Cork and Dublin staffed by local experts.

Partly down to investors and partly to management, ethics are applied to the investment process - it will not invest in the arms or gambling sectors among others. "One of our screening criteria at the outset is whether we feel comfortable about being associated with a certain business - is this the right kind of thing for us to be backing?" Outside that, Beechbrook is building a diversified portfolio of old economy and new economy, services and goods-based businesses.

Fenn adds: "We're trying to make sure the portfolio is robust, as we move through periods of economic change. Our target returns are pretty good, but they're also likely to be received, as opposed to a fabulous return that might come or not - that's for different investors."

Since the financial crisis there has been a trend towards the creation of an increasing number of independent debt funds in Europe, somewhat along lines like the US. The markets will now be fiercely tested by the global COVID-19 crisis and a potential international recession. Nick Fenn says there will be a further shift in Europe from banks to debt funds. "And that provides a big opportunity. We're in year 10 of what is likely to be a 25-year-plus process." ●

BEECHBROOK INVESTMENTS

- In October 2019 Beechbrook provided acquisition finance to support the buy-out of UK healthcare services provider **Access Fertility** – the largest in its market sector in Europe. Via its network of partnerships with professional, ethical and successful clinics in the UK, it offers IVF services. The buy-out was sponsored by private equity firm Formentor Capital and a group of co-investing family offices. Partner Sandeep Agarwal led the deal.

- In October 2019 Beechbrook supported the £22m Ethos Partners-backed buy-out of **Motocaddy**. Beechbrook's UK SME Credit Fund provided a senior secured loan and equity co-investment. Based in Bishop's Stortford, it exports to Germany, France, Sweden, the Netherlands and Canada. Beechbrook investment director Adam Moore led the deal.

- In June 2019 Beechbrook made the 13th investment from its Private Debt III fund with an investment of debt and equity in **Dermedis**, alongside Munich-based PE firm Rigeto and management. Dermedis, based in Germany, provides non-surgical beauty treatments. The capital supported the add-on acquisition of **Clinique Matignon**, a leading aesthetic clinic network in Switzerland, creating one of the largest chains of high-end beauty treatment centres in the DACH region. Beechbrook's German team, Peter Gottron and Felix Beckmann, led the deal.

- In June 2019 Beechbrook's UK SME Credit Fund II provided finance to **Seventeen Group**, a privately-owned insurance group, to fund its acquisitions of **Graybrook Insurance Brokers** and **Walker Persson & Spargo** (WPS). Graybrook focuses on medical sector insurance, WPS on town councils, independent stores and the hospitality sector. Investment director Tim Johnston led the deal.

EXITED DEALS

- In 2017 **ICP Nurseries** required further funding to acquire more nurseries and received £15m in expansion capital from Beechbrook, enabling it to grow to 20 sites. "We provided a flexible financing solution to facilitate the growth of ICP nurseries," says Paul Shea, "bringing in co-investors to top up our facility size. Eventually the fund was refinanced with a loan from Ares 'because the management team wanted to take another big step up' and required funding beyond our means."

- In 2015 Beechbrook provided a mezzanine loan to **Veezu**, the owner of a network of regional taxi firms in the UK. The cash supported its acquisition of the leading private hire firm in Leeds, **Amber Cars**. "They rolled out and improved the group, and made some other acquisitions," says Fenn. "At the end of 2019 we were refinanced out because they felt it needed somebody with deeper pockets for the next part of their journey. But that for us is success, helping them achieve their goals."

- In July 2014 Beechbrook provided mezzanine finance to **IRSH**, a specialist car repair business backed by Swiss private equity firm Ufenau. "We restructured the group, moved into a mezzanine position, and followed our money in the equity a couple of times," says Shea. By the time Beechbrook exited the business had grown from €15m EV to over €100m.