

Patron's bridge between equity and property

The London-based firm admits its strategies may confuse investors, writes Phil Davis. But some unusual deals have paid significant dividends

The private equity industry raised as much as \$260bn last year, depending on which data you rely on. In the US, Goldman Sachs Capital Partners raised \$8.5bn, Warburg Pincus \$8bn and Carlyle \$7.85bn, while in Europe CVC Capital raised €6bn and BC Partners €5.8bn.

The amounts are overwhelming; and have led some in the industry to wonder whether such sums can be efficiently invested, or whether intense competition for large deals will lead funds to overpay.

The mid-market appears much less frothy, though competitive nonetheless. But niche firms, looking at deals in the mere hundreds of millions of dollars, or even tens of millions, can be overlooked by investors.

London-based Patron Capital, for one, says its strategies for the €750m of private equity assets it runs, can confuse investors. Keith Breslauer, who founded Patron in 1999, says: "We are an unusual private equity fund. We bridge private equity and property."

Nearly all Patron's deals in western and central Europe are based on finding undervalued property assets. Its most recent transaction in December, involved the flotation of 27 per cent of its French subsidiary Vectrane, which owns office blocks in Paris' business district and two Center Parcs resorts.

The offering represented a quick turnaround for Patron, which, as part of a consortium, had bought the holdings from a Canadian company for about €500m just last summer.

More offbeat transactions include buying the storage operations of Simon Engineering for £88m in 2002. The unsightly port locations, representing the UK's largest independent petroleum and petrochemical storage company, were sold last year for about £120m to a Canadian group.

"The key is we invested in it during the time we owned it, adding pipeline and tanks," says Mr Breslauer.

Even more arcane was the purchase of a cinema chain in northern Poland last year. The chain, consisting of 43 single screen cinemas, is in the process of being broken up with

many being sold off as small shopping malls, and about 15 being kept as cinemas.

Value was also unlocked in the purchase of the five-star Barcelona Hotel Arts in 2001. While the hotel was considered one of the best Ritz Carltons in the world, its parent company, Japanese retailer Sogo, had gone bankrupt. Patron sold most of its stake in 2004.

But even in the mid-market prices can get too frothy and Patron is wary of overpaying. It was outbid in November for a string of conference centres being sold by Rentokil Initial, which needed to raise capital.

"It was a good deal and a good team but the price was just too high," says Mr Breslauer.

Nevertheless, the mid-market may just be the least competitive, and therefore the most attractive, private equity sector for investors. According to Private Equity Intelligence, \$17bn was raised worldwide last year in mid-market buy-out funds, with \$500m-\$999m in assets.

This is a 13 per cent increase from 2004. But in the \$1bn plus bracket where Goldman Sachs and Carlyle reside, \$98bn of buy-out capital was raised in 2005, a 139 per cent increase on the previous year.

Mark O'Hare, managing director of PEI, says:

"These figures

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may give the impression there is less competition in the mid-market, but in the sense that all the big players can also do \$500m deals, there is more. Nevertheless, the mid-market remains profitable."

He also rejected the idea that large buy-out funds would struggle to find deals.

"The knee-jerk reaction to the increase in buy-out funds is there is too much money chasing the deals.

"The reality is that private equity is reaching parts of the market it had not gone into before. The rate at which money is being called up has increased in the last two and a half years so the overhang of capital is no bigger than it was several years ago.

"Who knows if that money will be as profitable as it was two years ago? Equally there's nothing to suggest a disaster round the corner."