

it started with a \$500m commitment in 1994 and its managers have invested \$950m in various Texas

Healthy mid-market returns set to continue

Mid-market buy-out houses have averaged returns of 2.8 times their initial investment across all fund vintages, a level which they should be able to maintain, according to the latest research, writes *Oliver Smiddy*.

Findings in a report from Fleischer, Hoyer & Partner Private Equity Consultants indicate this sort of return as "generally being sustainable in the future". The figure is supported by the evidence of recent realisations such as Industri Kapital's sale of Myresjohus, a Swedish housebuilder, which yielded a three-times multiple.

However, the report cautions: "The risk is believed to be linked to deal pricing. Although valuations remain significantly lower than at the larger end of the market, some concerns and pricing pressure exist, especially at the higher end of the mid-market."

The report examined the landscape of the small and mid buy-out market, defined as being transactions with an enterprise value of up to €250m (\$303m). Sponsored by Access Capital Partners, a

Paris-based mid-market fund of funds firm, it looked at managers whose most recent fund was less than €1bn.

On average, it found mid-market buy-out fund managers had existed for 13 years but the most experienced buy-out house surveyed had been operating for 45 years. On average, managers ran three generations of funds, with the highest number being 11. Total capital under management averaged €522m per management company, with the average size of the most recent fund being €283m. Firms surveyed expect that to rise to about €340m, before stabilising.

FHP concluded there was a considerable level of experience in the mid-market segment and managers had "demonstrated their maturity and established their credibility".

Factors which differentiate the mid-market from the larger segment included its geographical area of specialisation. The survey found there was a "strong single-country focus", with 82% of the firms surveyed describing themselves as national, not international players.