

# News & Analysis - Closed Deals

18 August, 2008

## Evercore Sells Stakes In Five Companies To Secondary Buyer

**Accretive Exit Capital Partners LLC** has closed the first deal for its initial fund, paying \$110 million to **Evercore Capital Partners** for “meaningful minority positions” in five of its portfolio companies.

Boston-based **Accretive** Exit Capital is a so-called secondary-direct investment firm founded by **Edwin Wang**. It was formerly known as **Asymmetry Capital LLC**, which operated from 2002 to 2007. The firm buys stakes in late-stage growth companies from vintage 1999-2003 buyout funds, zeroing in on top-tier assets.

Secondary-direct investing in buyout funds has grown rapidly in the past few years, even more so now because of tightness in the capital markets. The practice is attractive to GPs who need to get some liquidity out of an older fund, perhaps to satisfy antsy LPs. For the secondary-direct firms themselves, the deals give them the chance, if they choose wisely, to participate in a profitable exit in a shrunken timeframe.

Among the more prominent secondary-direct firms are New York-based **VCFA Group**, which was formed in 1982 by **Dayton Carr** mainly for this purpose; **Coller Capital**, which has about \$8 billion under management; **W Capital Partners**, headquartered in New York; and **Saints Capital** of San Francisco.

The companies involved in the Evercore Capital deal are a diverse lot: Davis Petroleum, a Houston company involved in oil and gas exploration and production; Diagnostic Imaging Group, a Hicksville, N.Y.-based provider of outpatient imaging services; Test Equity, which distributes test measurement equipment and is headquartered in Thousand Oaks, Calif.; Mr. Bult’s Inc. a Burnham, Ill., long-haul transporter of municipal waste; and alliantgroup LP, a tax consulting firm also based in Houston.

**Andrew Reilly**, managing director of **Accretive** Exit Capital, said the firm is already lining up exit opportunities for Davis Petroleum, whose other investors include **Bain Capital** affiliate **Sankaty Advisors** and Los Angeles-based **Red Mountain Capital Partners LLC**. Davis Petroleum was purchased by the Evercore Capital-led group in March 2006 for about \$150 million. **Accretive** Exit Capital has purchased a 12.5 percent stake in Davis and is close to bringing three “top 10” buyers to the table, Reilly said.

**Accretive** Exit Capital purchased the stakes from the vintage 2002 **Evercore Capital Partners II L.P.**, which originally raised about \$660 million, according to Reilly. Evercore Capital Partners is the private equity unit of publicly-traded **Evercore Partners**. A source close to the

transaction told *Buyouts* that Evercore Capital saw the deal as a chance to monetize some positions at what the firm considered "solid values" at a time when it's difficult to sell assets. In addition, the deal didn't impact the underlying debt structure of any of the companies, the source said, and Evercore was able to retain majority control and preserve upside.

As a general rule, **Accretive** Exit Capital looks to spend \$100 million to \$500 million purchasing stakes of roughly 20 percent in portfolio companies. Companies need to generate a minimum of \$5 million in EBITDA, post four consecutive quarters of double-digit earnings growth and sport a debt-to-EBITDA ratio of less than 2.5X. The firm is operating on a five-year cycle for its funds, which Reilly said is "perfectly aligned" with that of the vintage funds it targets. The strategy also calls for **Accretive** Exit Capital to help reposition portfolio companies for exit within 18 to 36 months of the deal's completion.

Reversing the usual process, **Accretive** Exit Capital's method is to line up financing after it finds a deal target. The firm has a group of backers led by Boston funds-of-funds manager **HarbourVest Partners LLC**. This group committed \$125 million for the firm's first fund, **Accretive Exit Capital Partners I L.P.**, in a June closing. With that commitment in place, **Accretive** Exit Capital went ahead and closed the transaction.

"Funding is not a problem," said Reilly. "The trick is finding the companies and then the general partners that will let us cherry pick. Our belief is that if we're providing significant liquidity, we want the best assets." The Evercore Capital transaction leaves **Accretive** Exit Capital with \$15 million in dry powder to put to work on exit strategies for the holdings.

By Michael Baron