Flexstone finds value in mission-critical...
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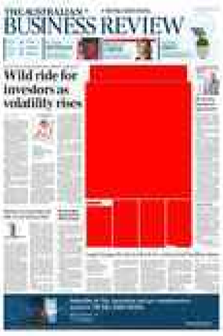

Flexstone finds value in mission-critical opportunities

CLIONA O'DOWD

Record levels of dry powder, alongside a more certain inflation and rates outlook, will drive a further pick-up in the private equity market this year, according to Flexstone Partners' Nitin Gupta, who favours investing in "mission critical" businesses over the crowded technology space.

New York-based Mr Gupta, in Australia this month to meet with some of the nation's largest institutional investors, including super funds, said the need for PE firms to deploy cash was helping to boost the sector. It follows a sluggish 2023 for PE firms.

"There's a lot of capital in private equity, a lot of dry powder, and most of that is in the funds that have been raised in the last three years. All of these funds have a typical investment period of four or five years, so there is a need to deploy capital," Mr Gupta said in an interview.

"We've seen over the last six months, deal activity has really picked up and it's done that because there's more certainty on interest rates," he added. "There's also, I think, better alignment (on prices) now between buyers and sellers. As well as that, credit markets are very liquid. Last year, it was basically the private lenders that were allocating funds, but a lot of the syndicate market has now come back, the traditional bank market has come back."

Global investment firm Flexstone, an affiliate of Natixis, has $US10bn in assets under management and focuses on the lower and mid-market in deal flow. While the top end of the market – the likes of KKR, Apollo, Blackstone and The Carlyle Group – got all the attention, the lower, lesser-known end could deliver better returns and provide a point of diversification for investors, Mr Gupta said.

"You can really outperform if you pick and choose the right funds to partner with on the lower middle market ... it's a great alpha driver," he said.

For its direct investments, Flexstone invests in companies with an enterprise value of less than $US1bn, and the vast majority are smaller, with an EV of $US500m or less.

It doesn't do venture capital and typically avoids the crowded technology sector, instead favouring cash flow-positive businesses, most of which are family-owned companies, where private equity may be the first institutional capital involved.

"We tend to focus more on businesses that are 'mission critical'. They're not technology firms, but they're still mission-critical businesses because they have a low cost for the value that they're providing to the end customer," Mr Gupta said.

"Or we're investing a lot in fragmented markets because even in this market, where it's tougher, you can do small acquisitions at great value, and they're very accretive."

After a year to forget in 2023, PE is enjoying a revival.

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Qantas decision 'benefits the public'

DAMIAN SHAW

Flexstone Partners' Nitin Gupta is in Australia to meet some of the nation's largest institutional investors

Flexstone finds value in mission-critical buys

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Super giant AustralianSuper this month said PE and infrastructure were among the better investment opportunities.

"Both private equity and infrastructure to some extent, and even some private debt, in those markets the pricing hasn't gone up as much as listed markets, and they represent pretty good opportunities," the $300bn super fund's chief investment officer, Mark Delaney, said on Bloomberg TV.

The investing landscape had changed from a couple of years ago, when competition was more heated, he added.

"Now is a better time to put money into private markets than two or three years ago, when valuations were more expensive, and deals were quite scarce, with a massive amount of capital going in," Mr Delaney said.

Pressure to sell ageing portfolio assets would help to get deals over the line, while the fundraising cycle would be an increasingly important driver of exit momentum, a recent report by consultancy Bain found.

At the same time, the timing and pace of PE exits would depend on confidence in the broader economy and conviction that interest rates had peaked.

For his part, Mr Gupta sees rates as moving only in one direction. "We now have certainty on interest rates; they're no longer going up, they're going to be coming down. I don't know if it's two interest rate cuts or three or four. But we invest for the long term, so we're not as impacted by these quarter-to-quarter movements."