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PRIVATELY SPEAKING

Green shoots

Nino Tronchetti Provera's Ambiente focuses on growth businesses with an environmental twist. It's hard to dispute the Italian firm's basic investment thesis – but as it prepares to raise a second fund, has it done enough to convince LPs that it's worth backing? By James Taylor

It's not easy to like a man who's clearly much better looking, much better dressed and much better connected than you. But somehow Nino Tronchetti Provera, chief executive of Ambiente, manages to get away with it.

Maybe it's the fact that he serves up the best coffee of any private equity firm in London. Maybe it's because he can talk you through every one of the six goals English footballer Paul Gascoigne scored for his club, Lazio, in the mid-1990s. Or maybe it's just that characteristic Italian charm and swagger.

Of course, in the current climate, being an Italian of any stripe is not such

a good thing when you're about to go out and ask LPs for at least €300 million – particularly when it's for the second fund of a firm focused on 'environmental assets' that is yet to complete any meaningful exits.

But if you spend an hour or two in Tronchetti Provera's expansive company, as *Private Equity International* did in London in November, it's actually not hard to imagine Ambiente pulling off this *missione impossibile*.

That's partly because the firm has done it once already: it closed a €217 million fund in 2009, making it one of the only European firms to raise a nine-figure sum

at (what looked like) the height of the crisis.

But it's also because the more you think about it, the harder it is to dispute its underlying investment thesis: that the world desperately needs more products and services that help us use the planet's natural resources more efficiently and cleanly.

Here are a few facts and figures that LPs are likely to find in Ambiente's pitch-book when it officially hits the fundraising trail early next year. Between 1950 and 2010, the massive explosion in the world population created two billion new consumers (according to the UN). In the »

» last 15 years, water usage has jumped by two-thirds, and it's predicted to rise by a similar amount in the next 20 years. In the last 10 years, the price of natural resources has been rising at about 9 percent a year (according to the McKinsey Commodity Price Index), as demand for commodities like wheat, oil, copper and uranium has doubled, trebled or even quadrupled. Industrialised cities in emerging markets are already pumping out more sulphur dioxide into the atmosphere than Europe was before it took steps to address the issue.

This is the area in which Ambianta operates: backing businesses that help to solve or at least mitigate some of these problems.

Does it work? Well here's perhaps the most salient statistic, as far as potential LPs will be concerned: over the last few years, Ambianta's current portfolio of businesses have, on average, enjoyed compounded annual revenue growth of 15 percent. How many firms can say that about their portfolio at the moment?

Nonetheless, the \$300 million question remains: would you back a largely unproven fund, in a market segment that arguably doesn't exist yet, based in a country where it's unclear who'll be in charge or what the currency will be in a few years' time?

MADE IN EUROPE

Ambianta opened its doors in 2007, although for Tronchetti Provera, the idea had been brewing for a long time before that. He wrote his MBA thesis on environmental business in the early 1990s. After graduating, he worked for the consultancy McKinsey, where he launched the firm's environmental practice. And in 1997, he started his own environmental business, called Cam Technologie (whose most significant product was a low-impact in-water alternative to standard diesel).

"I became passionate about this industry not so much for ethical reasons – but for the very simple reason that it's one of the



“It's not about green; it's about growth. We're looking for SMEs with a clear, understandable growth path

9%
Average annual rise in commodity prices in last decade

15%
Current average CAGR of Ambianta portfolio companies

€217m
Size of Ambianta Fund I

€300m
Target size of Ambianta Fund II

€20-25m
Likely equity ticket size from Fund II

few areas where it's hard to have doubts about the growth trends of the future," he explains.

It's worth taking a quick detour into Tronchetti Provera's family background here, if only because it provides a possible explanation for his entrepreneurial zeal. His cousin is Marco Tronchetti Provera, the legendary chairman of tyre-maker Pirelli, which he controls via the holding company CamFin. Nino started his environmental business under the CamFin umbrella; but when Marco and CamFin took control of Telecom Italia in 2001, Nino joined the company full-time, with his business being absorbed into the larger group. He stayed at Telecom Italia for five years, latterly running IT hardware business Olivetti, before deciding it was time to do his own thing again.

So although he's clearly no stranger to the *salotto buono* (the elite group of senior bankers and industrialists at the heart of Italian economic life) he'd also spent a lot of time working for what he calls "the family business". You can see why that might make him more inclined to prove that he could build a business on his own. And running Cam Technologie – not to mention a chocolate company called Venchi he'd launched on the side with a friend, which is remarkably now tracking towards revenues of €50 million – had only made his entrepreneurial itch worse.

"I'd always wanted to be an entrepreneur," he says, "And in 2007, it was obvious to me that that meant being an entrepreneur in an environmental business."

The world was also ready for a business like Ambianta in a way that it hadn't been 10 years earlier, thanks to the explosion in the global population and the soaring price of natural resources. Suddenly, companies focused on resources efficiency and pollution control became more attractive, because there was far more demand for their products and services.

"To me, there was a clear opportunity to back all these European companies that had amazing growth opportunities – just by selling to the world a solution they'd nursed for 50 years," explains Tronchetti Provera.

By way of illustration, he cites the CEO of a long-running German business (in which he hasn't yet invested, but hopes to at some point). "He said to me: 'For thirty years I've been the 'crazy' German'... His product was the most efficient, but it was also the most expensive, and people weren't willing to pay the premium. Now he's gone from €20 million revenue to €140 million. And the big change has been in the demand, not the supply."

The other key part of the Ambianta investment thesis is that Europe is actually better placed than any other region in the world to produce businesses like this. Necessity has been the mother of invention here, he argues: because Europe is densely populated but has hardly any of its own resources, companies have been forced to come up with inventive ways to improve outputs or reduce inputs (or even both).

Other regions just haven't got the message in the same way, he suggests. For example, by 2008 the US was using more than twice as much energy per capita per day as Europe. "When energy is scarce, Europe's answer is 'we need to consume less'; America's answer is 'we need to find new sources of energy.'" (And now it has, with shale gas, that's unlikely to change any time soon).

IT'S NOT ABOUT GREEN

So what does this mean in practice? Ambianta has committed just over 80 percent of Fund I across nine deals, all unrealised. They fall very clearly into two groups: the two deals done soon after the first close in 2008, and then the seven deals it has done since May 2010.

The firm is very keen to put clear blue water between these two groups; it even »

» calls the first the ‘asset portfolio’ and the second the ‘growth portfolio’.

And it’s not hard to see why. It’s partly about performance; one of these early deals (ICQ, a renewable energy developer) is performing quite well, the other (Ambienta Biomasse, a biofuel manufacturer) rather less so. But it’s also because the experience of doing these deals – and the tough lessons learned in the chaos that followed the collapse of Lehman Brothers – clearly prompted the firm to adjust its investment strategy.

“What we learned is that things like capital efficiency, scalability, agility and international exposure are key to coping with uncertainty. If you’re capital efficient, it’s easier to grow through cycles as you don’t require capital. If you have an international footprint, you can go through a lot of crises – like the one in North Africa last year, or Southern Europe this year – without jeopardising your business. Our first investment was too related to capital availability. And it was too related to one country, i.e. Italy. If you’re 100 percent in Italy and something happens in Italy, you’re dead.”

There followed a period of almost two years where Ambienta did no deals at all. Tronchetti Provera says this was because it was hard to see exactly how the world had changed post-Lehman, although there was also clearly a lot of hard work going into the first two investments.

Either way, since the firm started spending again in 2010, the deals it has done have been noticeably different: there’s Ravelli, an Italian manufacturer of biomass-fuelled stoves; SPIG, which makes cooling towers

“If you’re 100 percent in Italy and something happens in Italy, you’re dead”

for factories; MBA Polymers, a world leader in recycled plastic production; Amplio, a water treatment and filtration business; Tower Light, which makes lighting towers for construction sites; FoundOcean, which does grouting for offshore oil and gas rigs; and most recently Tattile, which provides smart cameras with a range of uses from production lines to traffic management. These are companies with established models that are less capital-intensive, less reliant on government incentives and less exposed to particular geographies (in fact, Tronchetti Provera points out, they now sell to 87 countries between them).

All of which demonstrates, he insists, that although Ambienta might use the tagline ‘Environmental Assets’, it’s not a ‘green investor’ in the way this term is typically understood. “It’s not about green; it’s about growth. We’re looking for SMEs with a clear, understandable growth path. We’re not looking for something game-changing; we don’t want to invent a new business model. We just want a steady path of improvement.” Growth is crucial, he says, because it gives you much more margin for error.

In fact, he likes to describe his team – which incorporates a mix of industrial and private equity experience – as ‘industrial growth investors’. And that (he is very keen to stress) is a very different model from most green investors, who typically favour a more venture-like approach. “The reason people are not satisfied with the returns from green investing is that most [firms in the area] are focused on developing new technologies – as if this was kind of a ‘cut and paste’ of the tech boom. But there’s a big difference.”

RESOURCE-INTENSIVE

It’s probably clear from the above that Tronchetti Provera has been doing a lot of thinking about how to position his firm to investors. Fundraising is scheduled to

start in earnest in Q1 next year, with Rede Partners acting as placement agent: €300 million will supposedly be the target, but although he claims there’s been no discussion yet about the hard cap, you get the sense that Ambienta hopes to raise rather more than that.

Either way, the strategy will be ‘more of the same’, he says – i.e. equity investments of around €15-25 million. “We raised money as a start-up in 2008/09 ... [Yet] we’re still up and running – and we’re still very optimistic given the strategy we have. It would be insane to change it.” It’s also spent years developing relationships with the relevant businesses and management teams. “Sometimes it can take five years to get a result. But sooner or later, there will be a deal. We’ve created such a long pipeline of companies. To change cluster would be criminal.”

That’s not to say he doubts the size of the opportunity. Quite the reverse, in fact: he reckons that even if you only add up the identifiable businesses in the obvious sectors, it would amount to a \$2 trillion market. “It’s just a great opportunity. And it’s much bigger than people think: every single company is affected by this. In fact what really astonishes me, even these days, is that Europe is so full of companies that are growing at 15/ 20/30 percent by doing exactly what we look for. Not just the ones we invest in, but all those we look at.”

One of Tronchetti Provera’s favourite phrases is: “This is not a sector; this is a theme”. What that means in practice is that relevant businesses could exist in virtually every sector you care to mention. So finding the right opportunities requires a lot of legwork. “50 percent of our pipeline is outbound. And there is no Yellow Pages of environmental business: the theme touches every single economic activity. So we need to look at every sector and sub-sector to understand how resource and pollution trends are affecting them, and as



a consequence, which are the companies that will enjoy these trends.”

Typically Ambienta will be the first financial investor in a business, so it is usually trying to develop relationships with management from scratch. This is something private equity often struggles with, he suggests. “The reason PE [has] had a hard time dealing with *Mittelstand*-type companies is that you need to be able to engage with them.” In Ambienta’s heartland of North Italy and Germany, the mentality is similar, he says. “For the first four or five meetings you don’t even talk about business; you talk about their house on the lake, or whatever. For these entrepreneurs, a company is like a daughter; so you need to be able to prove to them that not only are you good investors, but you’re the right investors to marry her. That’s a concept that many people do not get.”

And finding the right team is incredibly important to him. “I’m a maniac about people. I strongly believe you need to understand that small and medium sized companies rely a lot on a few people. You have to be good at picking the right ones. For SMEs to grow, you need to have champions, outliers, outperformers. Because smart people can survive a storm; the not-so-smart ones can die in a swimming pool.”

Ambienta has accumulated a 13-strong investment team – which is pretty big for a firm with a €200 million fund that only does two or three deals a year. But according to Tronchetti Provera, it needs this many people not only to get the deals through the door in the first place, but also to work with the portfolio companies post-investment. A big part of its offering is the way it helps these businesses to grow, and in particular, to expand internationally.

This is an area where its LP base has come into its own, he says. When the firm raised its first fund, it got the backing of around 20 leading Italian entrepreneurs and family offices, across various industries, »



» who chipped in a total of over €60 million – and took a small slice of the management company for good measure. Between them, they are usually able to open doors anywhere in the world, he says. “One issue we have is that we are a small firm trying to help small and medium-sized companies go global. So one of our answers to this is to use the help and support of people who through their companies have roots in most countries on the planet.”

In this fundraising cycle, it hopes to diversify its LP base, so it’s slightly less reliant on Italian investors. But this kind of support will continue to be worth its weight in gold.

MORE, NOT LESS

So what does Tronchetti Provera worry about when he thinks ahead to fundraising?

The big issue, as he sees it, is that Ambienta remains relatively unproven: however impressive its portfolio growth numbers, it

is yet to generate bucketloads of hard cash for its LPs. “We’re a young company with a young fund; our average tenure for our portfolio companies is 22 months.”

And the Italy issue? After all, some investors seem determined to steer clear of Europe altogether, let alone one of its most challenged countries. “Sophisticated investors understand that we don’t buy countries, we buy companies. And actually, at this moment, the situation in Southern Europe creates a big opportunity. One of the best ways to make money is to buy cheap. And if there’s one moment in history when it’s a good time to buy cheap, it’s now. If you buy export champions – companies that are located in Italy, but don’t rely on Italy – you can get fantastic multiple arbitrage. What I’m really worried about is the macro environment, not Italy or Europe. There’s so much uncertainty out there.”

Could competition be a problem, if this is indeed such a huge opportunity? “To be honest, I’m very surprised that there’s

nobody else in the market doing what we do. The reason people gave us all that money ... [is because this is] simple; it’s straightforward; it makes sense. So someone will come along, for sure. But at the moment – plain vanilla private equity, with an industrial angle and environmental know-how – I don’t see anyone doing it.”

So will we soon see all the big firms launching dedicated teams for this area? “I think so, [though] they will have to invest a lot. They’ll have the PE skill, but not the know-how, and that’s where we’ll have a competitive advantage. But the main reason I’m not scared about it is that the market is huge – there are thousands of companies to go after.”

Among the LPs we asked about Ambienta, there was no shortage of interest in its story. And no wonder; as Tronchetti Provera points out, plenty of trends appear to be in its favour.

“I’m a very long-term-oriented guy. And unfortunately, the way the world is evolving will call for more environmental solutions rather than fewer. I say ‘unfortunately’ because as a father, it’s very bad news – issues such as pollution, water scarcity, energy consumption, what we eat and breathe – it’s all very scary from a human perspective. But from a business perspective, it’s really encouraging. Technologies, processes, services and products that are able to make wise use of natural resources and avoid uncontrolled pollution are going to be increasingly important.”

But is Ambienta the right firm to take advantage? Everything is in place, he says – but with a fundraising cycle still to come, and the possibility of macro shocks ever-present, there’s still plenty that can go wrong. “It’s like a vineyard owner: he works for a year in order to grow nice grapes ... But in the last 3 or 4 weeks when the grape is on the vine, he prays – because if a flood or heavy rain comes, it will be destroyed. I feel like we’re in that moment now.” ■