

Proactive Investment Strategy For New Private Equity Fund: Identifying Promising Niche Industries To Create An Investment Framework For Inclusion In The PPM

The Challenge: MidEquity, a PE firm with a long track record of success in mid-market investments, was in the process of raising its second fund targeted at \$300MM. MidEquity wanted to differentiate itself from competitors by highlighting its focus on promising industry niches. To this end, MidEquity wished to hone its fund investment strategy (already focused on three major sectors) to help push the PE firm’s thinking about new deal ideas/sourcing and demonstrate to its limited partners its well-thought-out and focused investment strategy. MidEquity asked Gotham to help identify niche sectors possessing significant value creation potential and create the investment framework in time for the limited partners’ meeting scheduled 1 month away.

The Partnership:

Investment Criteria: The Gotham team began by helping MidEquity refine and clarify its ongoing investment criteria, which while directionally informative at a very high level, lacked the specificity needed to accomplish MidEquity’s targeted differentiation. To help MidEquity reach the necessary level of specificity, the Gotham team: met with the investment professionals to probe these criteria and further discuss target industries; and analyzed MidEquity’s deal history. We were able to quickly translate broad criteria into specific quantitative and qualitative criteria to help craft a targeted investment strategy.

Research And Analysis: Using the agreed-to investment criteria, the Gotham team conducted a series of analytical screens to rapidly arrive at 7 industry sectors of interest. More specifically, Gotham:

- *Profiled industry dynamics and short-listed industry sectors:* Gotham created an initial framework for fund investments, profiled global and domestic dynamics in MidEquity’s areas of interest, and leveraged Gotham’s proprietary US manufacturing database and additional research to identify a preliminary list of 48 potential industry sectors (out of 473). Gotham then held a brainstorming session with the MidEquity team to review top-level dynamics of these 48 potential sectors, leading to a short-list of target industries (20 sectors) to be further analyzed.
- *Further analyzed the 20 short-listed sectors to narrow the list:* Gotham further researched each of the 20 target sectors and performed a preliminary analysis against MidEquity’s investment criteria. A second review with the MidEquity investment team narrowed the study focus to 7 sectors.
- *Performed detailed analysis of the 7 target sectors:* For each of the 7, Gotham assessed and documented trends/current and future dynamics, including susceptibility to imports and value chain opportunities. In addition, we developed benchmark-based standards for evaluating deals and developing the portfolio by identifying best practices for each part of the value chain and benchmarking operational improvements and revenue enhancement opportunities.

Reporting: Once finalizing the investment framework with the MidEquity team, we summarized our findings/conclusions for inclusion in the PPM and provided reference material for the deal teams to help evaluate future investments in the targeted industry niches. We also presented the investment framework highlights at the limited partners meeting.

The Outcome: MidEquity successfully raised its second fund and within 2 years, closed 3 deals in the targeted industry niches.

