

STRATEGIES IN VOLATILE MARKET CONDITIONS

## Market Leader Investment Strategy in PE Buyouts generates Superior Returns

**A clear, differentiated, and resilient investment strategy for generating adequate returns, and thus, for the success of institutional investors, is becoming increasingly important. This is where SGT Capital comes in, positioning itself with its proven investment strategy aimed at above-average risk-adjusted returns while also meeting new challenges.**

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Photo: SGT Capital

However, the conditions for the private equity industry have changed significantly over the past two years. Factors such as rising inflation (the consumer price index reached its highest level in 2022 since recording began), tightening credit conditions with rising interest rates (the US Treasury Bond interest rate exceeded the 4% threshold for the first time since 2008 in January 2023, and subsequently, the ECB interest rate also surpassed the 3.25% mark, which was last reached in 2008), as well as other aspects like a sluggish economy and ongoing

geopolitical tensions, despite the recovery of global supply chains, make "business as usual" for the industry seem impractical.

In this context, SGT Capital has developed a strategy based on a three-stage approach: "Acquire-Align-Accelerate".

Step 1 involves the acquisition of mid-sized market leaders in Europe and North America ("Acquire"). These companies occupy a key position as one of the top three players in their respective markets and typically have a market share of about 5-10%. To be considered as a potential investment, these companies must operate in a lucrative and structurally growing market environment, especially showing potential to expand their international business, such as in Asia or North America, creating additional growth prospects. The company's ability to expand its business and product portfolio through targeted add-on acquisitions in the future is also taken into account in the buying decision. The goal of the first step is capital preservation, especially in a challenging market environment. Market leaders are typically more resilient and have pricing power due to the quality of their products and brands.

The second step, "Align," consistently continues this approach and aims to maximize the operational value creation potential of the acquired company. This is achieved through measures such as further professionalizing the organization, increasing efficiency in sales with a focus on larger customers, cost savings, optimized procurement and supply chain management, as well as targeted investments in research and development. The goal of the second step is to double the invested equity by consistently optimizing top-line, bottom-line, and cash generation.

The third step, "Accelerate," seeks to outperform typical private equity returns with the goal of > 3x Money over Money (MoM) through joint ventures with distribution partners in Asia and North America, as well as the implementation of a clear M&A strategy. The overproportionate increase in foreign revenues in Asia and North America leads to economies of scale and enables "cost leverage." Acquiring smaller competitors with attractive products allows for the filling of gaps in the product portfolio and higher cross-selling potential, as well as value enhancement through multiple arbitrage.

In summary, SGT Capital's investment strategy generates above-average risk-adjusted returns while considering the essential investment goals of investors, namely capital preservation and outperformance. The potential of this market leader-focused investment strategy has been demonstrated by the performance of SGT Capital's first fund. With an IRR of 27% per annum and a MoM of 2.3x, it achieved top-quartile performance and demonstrated the effectiveness of the strategy.

Currently, SGT Capital's experienced partner team is already investing their second fund, SGT Capital Fund II, which has already made two promising investments – Utimaco and Elatec. Utimaco is a global platform provider of trusted cybersecurity and compliance solutions with headquarters in Germany and the USA, which has been on a steady growth path since its acquisition by SGT Capital. SGT Capital's recent acquisition, Elatec, a market leader in electronic access control and mobile authentication technologies based near Munich, meets all investment criteria like Utimaco and stands out for its dynamic and highly profitable growth, which is expected to yield above-average returns with high downside protection.

The changing conditions pose new challenges for the private equity industry and require differentiated investment strategies for a volatile market environment. With its market leader

investment strategy, SGT Capital offers an extremely promising and well-tested approach to generate calculable above-average double-digit returns with downside protection for its investors.

For more information, click [here](#).