INVESTMENT

Peugeot Invest gears up to increase private equity exposure

By James Williams 25th January 2022

When it comes to investing in private equity, there is no sign of the Peugeots, one of France's best known industrial and automobile families, moving into reverse gear. In fact, quite the opposite.

Last year private equity performance held up well, generating a median internal rate of return of 33% for investors through the first quarter of 2021, according to Pitchbook.

And as Francois Massut, Head of Private Equity Funds for Peugeot Invest, confirms: "The company has decided this year to increase our annual capital commitment from €120 million to €200 million. In terms of performance, diversification and liquidity, private equity has exceeded expectations."

Last year, the family's listed investment company, FFP, established in 1929 and which listed on the Nancy Stock Exchange in 1989, was renamed as Peugeot Invest. With approximately EUR1300 million in NAV assets across primary funds and co-investments, the company's mandate is to invest primarily in lower middle-market managers, with a sector focus on healthcare and software B2B sectors.

Strategy wise, the focus is on leveraged buyouts and impact strategies, with Massut explaining that the earliest stage of fund they would consider is technology growth buyouts, which the likes of Summit Partners pursue:

"We are very disciplined and only have a few big-name managers in the portfolio, like Advent International and Warburg Pincus. We don't consider software B2C funds, or VC funds. A lot of family offices are focusing on VC but valuations are very high and no one knows if that will continue.

"We focus on lower mid-markets in the US and Europe, investing in companies that are generating positive profits and are EBITDA positive, and which are in line with the DNA of the Peugeot family."

The company's return expectations for private equity are over 2x net multiple on invested capital with low volatility. Massut and his team plan on adding two or three sector-focused GPs over the course of 2022 to increase exposure to the software technology and healthcare sectors.

Portfolio valuation is only half the story

Part of the success of any investor's private equity (and VC) mandate is ensuring that GPs not only create value in the companies they finance – which is extremely important in today's high valuation marketplace – but also successfully oversee exits at the apposite time.

"Exits are above our expectations, as well as the amount of value creation our GPs have overseen in their funds," says Massut. "I spoke with someone from a large family office in France who told me their boss was very happy with the valuation of their VC portfolio but that's only half the story if you don't have any exits. In our buyout and growth buyout portfolios, we have had a number of exits and generated between a 3X and 5X return, with a zero loss ratio."

Co-investments remain a key tenet of the Peugeot investment mandate. Massut confirms that they expect to do "around €100 million" of deals this year. Last year, for example, included a co-investment in Ynsect, a Certified B corporation that produces insect meal for animal feed and fertiliser. The deal was €10 million alongside partners Astanor, BPI and IdInvest.

The goal for 2022, says Massut, is to co-invest with Peugeot Invest's existing GPs in a series of technology growth buyout deals: "Doing investments in this type of sector requires working with sector specialists so that we can learn from them, and who knows, one day do our own direct investments in the software B2B sector."

When the company pursues direct investments, they are typically minority investments in established businesses with capital commitments ranging in size between €50 million and €300 million. Peugeot Invest is a key long term shareholder engaged in governance.

Last February, Peugeot Invest announced a minority investment of $306 million in International SOS, which provides access to healthcare and emergency intervention to global companies and government organisations. The firm operates in 85 companies and generated $1.2 billion in revenue for financial year 2020.

Many family offices are attracted by the return potential of venture capital, which saw $620 billion in investment dollars last year; double that of 2020. Peugeot Invest, for now, remains cautious on the asset class.

"We are open-minded but also very rational. To achieve great performance in VC you need to have access to the best managers. It is hard today to build a VC portfolio from scratch with the likes of Sequoia because they don't need you. They already have enough investors.

"If you cannot construct a portfolio of the best GPs in VC then we think it's better to focus instead on building it around the technology growth buyout space," states Massut.

Technology innovation is in the Peugeot family's DNA. The family established a steel foundry in 1810, manufacturing a variety of products including pepper mills and DIY tools, but it was when Armand Peugeot rolled out his "Le Grand Bi" penny-farthing in 1882 that the family's fortunes changed. From bicycle production, they soon diversified to automobile production, unveiling their first petrol car in 1890.

Several members of the Peugeot family sit on the board of directors of Peugeot Invest and the investment committee, to whom the management team reports. Robert Peugeot is Chairman of the Board. He was Chairman & CEO between 2003 and 2020.

Marie-Hélène Peugeot-Roncoroni and Jean-Philippe Peugeot both hold the role of Director & Vice-Chairman and also sit on the investment committee alongside Xavier Peugeot, Edouard Peugeot, Armand Peugeot and Pascaline Peugeot de Dreuzy. The Board has also independent directors with longstanding experience.

As a listed company, Peugeot Invest has had to ensure that its governance structure is both robust and institutional in quality. This formal structure is not necessarily something that all family offices can achieve but it goes a long way to ensuring the family protects its investment interests as far as possible.

One way of achieving this is to negotiate the Limited Partnership Agreement, even when re-investing with an existing manager.

"When we negotiate an LPA the first thing we always ask for is alignment on economics and governance. We are a member of the Institutional Limited Partners Association and in addition to our internal legal team we use external advisors every time we enter into a new investment to review the LPA. Are there any changes in the new fund compared to the previous one? Even if before we weren't able to achieve a decrease in the economics (i.e. management fee) we always ask the question.

"I always make this clear when presenting to the investment committee that we tried to push for change in the LPA. Regardless of what size of LP you are in a fund, you should always ask, and stand up for your principles," asserts Massut.

He cites one successful US-based fund manager to illustrate the point:

"They were planning to increase their carried interest from 20% to 25%, with a moderate performance hurdle of 8% and we said 'No, this is not possible'. If you start to accept these terms, other fund managers hear about it and it becomes a wider trend."

His advice to any family office is to try and structure their approach to investing in private markets as much as possible.

"There are many large family offices across Europe who have built investment teams with people dedicated to VC, to private equity and so on. It takes a lot of work sourcing managers, doing due diligence, executing co-investment deals and negotiating LPAs. You can't afford to get it wrong."

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