

## Institutions waking up to European SME opportunity

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By: **Andy Thomson**

*Participants at a roundtable hosted by Certior Capital spoke of lenders in the space achieving returns of up to 20%.*

Institutions are being won over to lending opportunities in Europe's SME market, having arguably over-estimated the risks involved. This was a view expressed at the European SME Private Credit Round Table staged by Certior Capital at the recent SuperReturn International event in Berlin.

Ari Jauho, chairman of Certior Capital, claimed that "SME private credit investing can offer attractive returns to investors with significant downside protection that comes with being a senior lender."

As yet, only modest amounts of institutional capital have been allocated to the space but the opportunity appears huge, with 40,000 companies in the UK alone having revenues of between £5 million and £50 million.

Johan Kampe, a senior managing director at Harbert Management in London, said you can safely lend to businesses which are rapidly growing but not yet profitable. He said Harbert often provides bridge funding between rounds of venture capital funding and that "returns to date have been attractive at up to 20 percent IRR, made up of 12-14 percent in a contractual element plus fees and in all cases an equity kicker".

Paul Shea, co-founder and managing partner at Beechbrook Capital, said the firm originally focused on private equity sponsored buyouts but was "inundated with enquiries from companies in the UK who wanted to borrow £5-10 million". That led the firm to set up a UK sponsorless SME fund which raised £150 million.

He added that banks are reluctant to provide the five-year bullet loans that is exactly what many growing companies are looking for. He said that for senior loans the firm is typically targeting a 10-12 percent contractual IRR with around half of deals involving equity kickers.

Martin Pommier, a partner at Iberia-focused Incus Capital, said his firm's SME-focused strategies include special situations lending, real estate credit, receivables, distressed debt and leasing. Target IRR returns are above 15 percent.

While it is commonly assumed that investing in and lending to smaller companies involves higher risk, speakers at the roundtable questioned whether risk is really as high as investors perceive.

David Bateman, a senior managing director at Harbert Management, said most deals in the space are the result of bilateral negotiations. “In debt there is only one senior lender and they really hold the reins,” he said. “Being the senior lender in a bilaterally negotiated deal is a great place to be.”

Shea pointed out that leverage is generally lower for smaller businesses and there are many more companies to choose from.

Finland-based Certior Capital is a funds of funds manager focused on SME private credit.