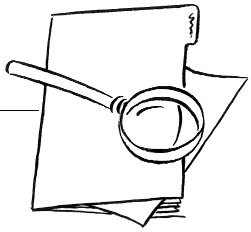


TA ASSOCIATES

THE GRANDFATHER OF GROWTH CAP

Growth cap is in vogue among venture firms and buyout groups. Having been in the business for four decades, TA Associates is the firm to beat.

If anyone can claim to have mastered the art of growth capital investing, it's TA Associates. While low-leverage growth deals are coming back into vogue, TA arguably has more experience of doing these types of deals than any one else. The firm, which is now in its 40th year, moved away from early-stage venture in its twenties to focus on profitable growth companies, at a time when most of Europe's biggest groups were yet to be formed.

"It was one of the first firms to focus on this segment, investing in profitable growth companies," says a European venture capital investor. "It has a phenomenal record and was a real innovator in identifying interesting trends."

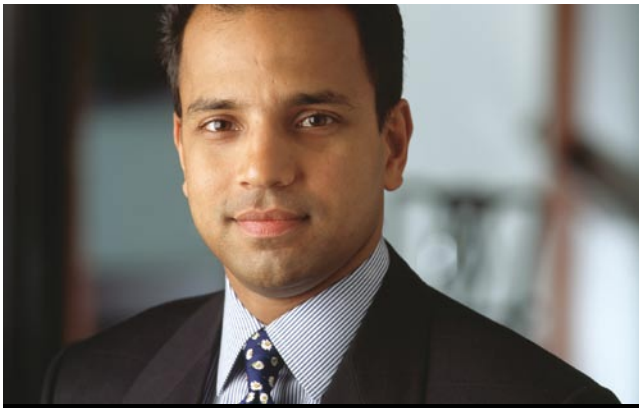
The firm's investment strategy is surprisingly prescriptive. It invests only in companies that have a minimum annual growth rate of 15 per cent. Following its investment, TA's portfolio companies have an average annual growth rate of between 25 and 30 per cent.

The firm has $12bn (€7.7bn) in funds under management, including $6bn of active funds and $4bn of dry powder. It seeks to make ten to 12 investments a year worldwide, from its offices in Boston, California and London, investing around $2bn a year. In the past few years Europe has accounted for around one-third of deals, and that level is increasing.

The London office, headed by managing directors Ajit Nedungadi and John Meeks, has seven investment professionals, and expects to have up to 12 by the end of the year, out of a total of 50 investment professionals worldwide.

SUBJECTIVE VALUATION

Unsurprisingly, TA focuses on many of the same high-growth sectors – technology, consumer products and healthcare – as early-stage venture firms. But there are no open-neck shirts or chinos at TA's offices. Its approach seems a more calculated, investment banking style, even if operating in this part of the market remains a subjective process.



Nedungadi: funding entry valuation in growth deal is "a real art"

"Funding the entry valuation for growth deals is a real art, not a modelling science as for larger deals," says Nedungadi. "The entry price is not so important when a company is going to grow a lot."

The firm has also carved out a speciality in some interesting subsectors. Its historical focus on technology and a growing interest in financial services from the London office has spawned several opportunities in "fintech".

Financial processing business Smartstream Technologies was one such company, which TA acquired from 3i in September 2006 for £84m (€109m). 3i bought the business during the dotcom boom at an inflated valuation, but it weathered the downturn well. During this time, TA had been monitoring the company. Upon acquisition, TA changed the top management and sold the business a year later for £208m, doubling the enterprise value and providing the firm with four times its investment in a trade sale last year.

Enterprise software is another rich investment seam. In November last year, TA cancelled the IPO of Sophos, an enterprise-wide secure content messaging company, following a shutdown in the market for new issues. "I am very glad we didn't go public," says Nedungadi. "It is a $200m business, growing at 25 to 30 per cent a year. It has $60m on its balance sheet, so it does not need the funds." TA acquired a minority stake in the business in May 2002, when it had 280 employees. It now has more than 1,000.

TA has also done straight financial services deals out of its London office, such as last year's €1bn acquisition of Jupiter Asset Management from Commerzbank.

Nedungadi says the firm has made 12 asset management investments, 100 software and services deals, and 200 straight technology investments. The end result is an enviable contact book, engendering further deal flow. The firm also covers healthcare, online consumer services and the branded consumer space.

Leverage is used in the majority of deals, and the firm manages its own mezzanine fund of nearly $1bn, TA Subordinated Debt Fund II, which is used to finance its own deals in a fast and private manner. The mezzanine fund is tapped for about one-third of investments. But as is the case with most growth and smaller mid-market funds, leverage does not drive returns.

DriveAssist is one example of a pure equity deal, where the company had £8m of Ebitda on investment. When it was sold three years later to Charterhouse Capital Partners, it had £24m of Ebitda, giving TA a return of 3.25 times its investment from organic growth.

In addition, the firm is happy taking minority or control positions in companies and, unusually, is happy to let founders cash out when investing. "We back entrepreneurs – people who are motivated whether they have £5,000 or £500,000 in the bank," says Nedungadi.

SLOWLY EMERGING

For a blue-chip growth investor, TA's move into emerging markets has been relatively cautious. The firm has recently made its first foray into Asia, taking a minority stake in Indian wireless services business Idea Cellular, which has ten million subscribers, operates in 11 countries and has nearly 60 per cent of India's total telephony market. The London office is used as the base for TA's expansion into new markets, and two new investment professionals will be joining this year to look at deals in India, prior to opening an office there.

When it comes to TA's internal processes, things are very clear cut. The firm assigns a team of four or five managing directors to each investment decision. Two of them lead the effort, undertaking due diligence and acting as the deal champions, while soliciting input from other TA professionals. The others examine the proposal and the final investment decision is made solely by these individuals.

The past year has also seen the firm establish its succession plans, with chief executive Kevin Landry moving to the role of chairman, and shifting the management of the company to an executive committee structure.

As the market for credit becomes tougher, TA may face more competition from mid-market houses looking for genuine growth opportunities. Meanwhile, Europe's increasingly risk-averse VCs are looking at late-stage and growth deals with more interest. But with a contact book that spans four decades and a proven record of delivering growth-based returns, it could be firms such as TA that lead private equity's next boom.