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THE PARTNER FOR AN OPTIMAL EXIT: SECONDARY INVESTOR W CAPITAL PARTNERS PROVIDES LIQUIDITY FOR SHAREHOLDERS WHILE EXTENDING RUNWAY FOR COMPANIES

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Alison Killilea, Managing Director at W Capital Partners, speaks with GrowthCap about her career as an investor in private equity secondaries and unique liquidity solutions available to growth stage companies.

RJ: I appreciate you taking the time here, and as always great to catch up. Perhaps we can kick off with a brief overview of W Capital and its history?

Alison: Sure, RJ I'd be happy to. W Capital was founded in 2001 by David Wachter, Stephen Wertheimer and Bob Migliorino. Our dedicated strategy for the last 13 years has been to provide liquidity for minority positions in private companies. In other words, we're offering non-control private equity shareholders an opportunity to exit an investment at any time before the natural M&A or IPO exit. In every other asset class, whether it's corporate debt, mortgages, public equity, control buyout and even limited partnership interests, investors have an ability to sell their investment or get the principal back at maturity. When the team founded W, they identified an asset class that had really no alternative liquidity option so our business from day one has been to be a reliable and committed source of capital to investors. We've always taken a long-term view and a long-term approach to every relationship that we have with every transaction counterparty. After 13 years, we now have a very long list of referenceable counterparties who often come to us on a repeatable basis looking for liquidity. We've also built a portfolio of a broad group of company management teams who have worked with us in the boardroom and who are great references for us. From a fund perspective, we were backed deal by deal from 2001 to 2004 when we raised our first institutional fund which was $250 million. We then raised our second institutional fund in ’07 that was $700 million, and now we’re currently investing Fund III which closed in July 2013 and is $750 million. We’re about 30% invested in that fund.

RJ: And could you go into more detail on how you work with growth companies and investors?
Alison: Yes, an important nuance of our strategy is that we also provide growth capital to our portfolio companies. Growth equity can come at the same time or subsequent to our liquidity transactions.   We typically buy either single investments or portfolios of non-control positions, and to date we’ve done more than 80 of these transactions. We never publicly announce our deals, but we primarily work with healthy, top tier, well-known institutional venture and private equity GPs who are being thoughtful about managing liquidity across their portfolios. We also spend time working with other types of sellers: founders and entrepreneurs who have meaningful stakes in their companies, banks and financial institutions with balance sheet investments, mezz funds with equity positions and corporate strategic investors with balance sheet investments.

RJ: Great, I think our readers would also be interested in your background and experience leading up to and with W Capital.
Alison: Sure. I started my career at Robertson Stephens in San Francisco as an analyst in investment banking. It was the outset of the tech boom, and Robertson traditionally banked high growth companies. It was an exciting time. I gained significant deal experience in a short period of time. I helped Robertson launch its European private capital business when the firm expanded to London, and then when the tech bubble burst it was also an incredibly educational time to see which companies survived, which didn’t and why. In 2001, I helped launch a structured convertibles business at Robertson which we later brought over to Piper Jaffray. My experience working with a broad range of tech companies, surviving the bubble bursting and working in structured equity have all been beneficial and applicable at W Capital.

RJ: How did you end up switching interests and your path away from investment banking?
Alison: Then after nearly seven years in investment banking, it was now or never, to get an MBA, so I went to Wharton. Coming out of Wharton I knew I wanted to get on to the other side of the table and pursue principal investing, and it was again a robust time

in the market. Most of my classmates were focused on large buyouts and hedge funds. However, when I met David, Steve and Bob at W, their strategy made a huge amount of sense to me, because in banking we had advised so many growth companies that really struggled with misaligned syndicate issues. I saw how those issues really bogged down companies and prevented them from either getting access to capital that they needed to grow or forcing them to sell too early or not quickly enough. W was actively and creatively solving those capital structure issues, improving boardroom dynamics and serving a unique and important emerging role in the private equity industry. I saw it as a huge market opportunity and a chance to work with an exceptional team pioneering this space. I joined in early ’07 and am closing out my eighth year now at W. Today, I’m involved in every aspect of our business. I spend most of my time sourcing and evaluating new investment opportunities, I’m involved in fundraising, and I sit on boards of our portfolio companies. It’s been a very exciting time in our market and for our firm.

RJ: That is very strong progression with the sequential fundraises. Do you find that W Capital is still very unique in the secondary asset class? Have you found increased competition or is W generally thought of as the premiere fund in the space?

Alison: We certainly have one of the longest track records in this strategy with a dedicated focus on providing liquidity for non-control private equity. We have seen a number of different types of investors participating in our traditional transactions ranging from LP secondary funds to primary funds, but with our $1.7 billion in committed capital and 13 year track record, we’re certainly amongst the largest and the longest running strategies dedicated to this part of our market.

RJ: A lot of the folks that read our publication are private company CEOs, and it’s very common for us to encounter CEOs who seek to execute a secondary transaction. While we here may be more familiar with what secondary private equity investors look for, readers are frequently not. There are some founders who took in early friends and family investors who have been holding their shares for five, seven, ten years and would like a liquidity event. And then there are others who have institutional backers seeking liquidity. Are there certain parameters that these companies or situations have to fit in order for you to take a hard look at them?

Alison: That’s a good question. So there are two points: what kind of companies do we like to invest in and what kind of situations do we address. On the company side, from a stage perspective, we focus on growth equity stage businesses, and we like growth buyout and buyout co-invests as well. We target companies that have revenue scale of at least $25 million and that are growing nicely with strong market momentum and scalable business models, either profitable or approaching profitability in the near term with very strong management teams. Simultaneously, we look for situations where we are solving a liquidity challenge that is currently plaguing the company and the investor. We look to create a win/win solution. We're typically investing $5 million to $50 million per investment, often taking a board seat so that the day after we close, we look and feel a lot like a primary fund. We look for opportunities to really partner with our management teams and grow their businesses and extend the duration of the investment. Does that answer your question?

RJ: Yes that's very helpful. And do you focus on certain sectors?
Alison: We invest across most industry sectors with an emphasis on growth equity and buyout stage businesses. We've been quite active in technology, specifically in software, internet, digital media, and tech-enabled services. We also like financial technology, financial services, consumer, medical technology and healthcare services. We really focus on business models that can scale and companies pursuing large market opportunities in a leading way.

RJ: Are there any particular investments you think best exemplify the type of opportunity that W targets?
Alison: Good question. And I think this will help clarify your earlier question on how we work with companies and investors. Our deals fall broadly into four categories. The first is the traditional secondary investment. We provide liquidity to a selling shareholder while keeping the company's existing capital structure intact. In some cases, we will simultaneously provide primary capital on the balance sheet. Mindbody, Ping Identity, American Traffic Solutions and Moosejaw are positions in our portfolio that we acquired through these types of transactions.
The second category which we've become very active in is what we call the partial realization. In these deals, we offer an existing investor a partial realization on say 10-30% of their position to lock in a gain, create a distribution to LPs, or de-risk the investment-whatever the motivation- while continuing to ride the upside of the deal. Ancestry.com, Milk Specialties and World Kitchen are examples of those deals in our portfolio.

Third, we're also active in buyout co-invests on a secondary basis. We provide exit opportunities to investors who participated in buyout deals alongside the original financial sponsors and who may have different investment horizons from the control sponsors. So we're simply buying out their minority stake and partnering with the existing sponsor. First Data, Hertz, and Vanguard are examples of those deals as well.

And then lastly, in the fourth category, we have the portfolio transaction which has always been a core part of our business. In these deals we acquire a whole portfolio of direct equity positions at once typically from private equity GPs that have tail end funds, from strategic investors with balance sheet investments or from mezz funds with larger than optimal equity portfolios. Opentable and Pandora Music are examples of positions that we acquired through portfolio transactions.

RJ: You mentioned that in your current fund you're about a third of the way through. How much capital do you look to deploy in the next 12-18 months if you're comfortable sharing that?
Alison: You're right, we have invested approximately 30% of Fund III to date. We've been comfortable and happy with our pacing so far. We have an incredibly robust pipeline, and in this valuation environment we're staying active but disciplined. I'll leave it at that.

RJ: Are there any unique trends that you're seeing in the secondary market? You mentioned some of the areas that you're more active in. Is there a trend in sectors or the types of secondary transactions?
Alison: There are a couple of things I'd say. First I'd say that general partners of well-known institutions, and limited partners for that matter, are more receptive than ever to the idea of proactively creating liquidity in a portfolio through secondary transactions. And that's probably because over the past decade, and this is something we focus on, the number of new private equity investments deployed in the market each year has exceeded the number of exits by more than three times. So today there are more than 7,500 private equity backed companies in the U.S. compared to 2006 when there were 4,500.

RJ: That's a very interesting statistic. I guess it becomes very apparent once you compare the number of new PE investments versus exits.

Alison: Absolutely, and as many firms are reaching the end of their fund life they have substantial unrealized value in their portfolio that's creating an overhang in our industry. That has always been a big part of our market opportunity, and we are actively helping investors solve this liquidity challenge. So receptivity is better than it's ever been, and that's an important trend in the secondary market which I don't see changing any time soon. Then lastly I'd say there's a lot of talk in the market about funds that are wrapping up old partnerships, legacy funds, tail end funds, that kind of thing. It's a large opportunity for us to provide solutions that allow general partners to sell off everything remaining in the fund or to restructure the partnership where we can fix alignment capital structure issues.

RJ: Is your fund life the same as the typical 10-year fund, and so you essentially extend the life of a private equity investment?

Alison: Yes.   Our fund is a 10-year fund. Fund III is vintage 2013. We do think about our deals as extending the runway for the investment, creating alignment with the existing investor syndicate and with the management team so that they can have the time to pursue their market opportunity to accomplish their goals and milestones.

RJ: Excellent. Well, this has been very helpful. This is our first interview with a secondary investor so I think our audience is going to find this very insightful. In fact many of them may not be as aware of this financing solution so again we really appreciate you taking the time.

Alison: I'm more than happy to do it RJ, thank you for the opportunity. More importantly, congrats to you on your readership and the exciting growth at GrowthCap.

RJ: Thank you, congrats on your and W Capital's success to date.