Buyouts

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FIRMS & FUNDS

A female-led firm raised $900m for its debut in 'worst-ever' fundraising market. How'd they do it?

So how does a new shop raising its debut fund navigate what is widely considered to be the toughest fundraising environment since the global financial crisis, if not ever?

For Stephanie Geveda, who spent the bulk of her career as a dealmaker at Warburg Pincus, bringing together talent to form her own shop required finding just the right mixture of grit and determination.

The plan was to take on overlooked opportunities in mid-market business services – businesses where Geveda's firm, Coalesce Capital, could provide not just capital but expertise from its bench of experienced investors and operators to founders of businesses ready for the next phase of growth.

Geveda, who launched her firm last year, initially signed on seven professionals she had worked with in the past, and offered all founding members a slice of carried interest. Coalesce quickly launched its first fund, targeting $750 million, and pursued its first deal, closing on Examinetics in August, around halfway through the fundraising process.

The effort culminated this week in the final close of Coalesce Capital Fund I in under a year, which collected more than $900 million. The firm worked with PJT Park Hill as placement agent on the process.

For a first-time manager, and a diverse firm, in the sluggish fundraising environment, the result is impressive.

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considered to be the toughest fundraising environment since the global financial crisis, if not ever?

A few factors played to Coalesce's advantage: the fact that Geveda, over her long career at Warburg Pincus, established an investing record that she was able to cite to prospective LPs. Warburg was supportive of Geveda's efforts to the point that it became an LP in the fund, committing into the first close.

Geveda also during her career built a network of potential investors; so in a sense, she wasn't really a first-timer approaching potential LPs, she said.

"Ultimately, when raising a first-time fund, you have to convince investors to take that leap of faith, and that exists no matter the market, no matter who the manager is, no matter what firm they came out of, no matter what their track record looks like, it's about your story and that story resonating," Geveda told Buyouts in a recent interview.

"For us it was about going to the market with a very clear strategy and the market opportunity we thought was being overlooked, [with] a great team that had a lot of connective tissue. We feel very fortunate that the opportunity ultimately resonated with investors."

That opportunity focuses on lower-mid-market to mid-market human capital and tech-enabled business services companies in the range of $5 million to $50 million EBITDA – a universe that includes around 30,000 businesses in North America.

"There was the opportunity I didn't want to let go by the wayside: to align investment capital and resources with the best human capital with the highest potential and that is in the lower middle market segment of the business services market," she said. "When you can align the financial capital and human capital, that's when extraordinary opportunities can transpire."

The environment also requires a different approach than ways firms were able to generate returns over the past decade, she said. The past era of cheap debt allowed PE firms "to produce outstanding results with little focus on value creation."

The next 10 years will require more time and attention to value creation methods, which at Coalesce are "entirely customized and tailored around middle market business services companies and that capital preservation mindset that we bring," she said.

Being a woman in private equity also helped forge in Geveda the tenacity that helped her push through the challenges of raising a debut fund.

"One of the most defining characteristics of women in the industry is we've sort of gotten used to doing things the hard way. Women that have thrived in this business by definition have had to build up that track record of grit and determination. Of course, that's true of men as well, but it's certainly true of me and every female leader that I know in this world," Geveda said. "So, in the face of significant market headwinds and way more nos than yeses, perhaps that experience does help a bit."

Investing while fundraising

Like many emerging firms trying to raise capital from LPs, Coalesce worked on dealmaking as it raised the fund, closing its first investment in August. Making deals while fundraising is a strategy that gives prospective LPs a view into how a manager operates. It's also a way for a new GP to offer co-investment access to existing or potential LPs.

Coalesce didn't necessarily plan to build out a seeded portfolio but the deal represented a compelling opportunity, Geveda said.

The Examinetics transaction "was just such a good depiction of the Coalesce strategy that we were marketing to our prospective investors," Geveda said. "The business is driven by growing regulatory compliance requirements, it has that very high-quality recurring revenue business model, compelling unit economics, and our opportunity to source a deal on a bilateral basis based on a 20-year relationship where the shareholders and management were picking their partners based on the values they thought we could add to the company.

"It was too much for us to pass up, despite us being very fully focused on fundraising and getting that closed out," she said.

Co-investment will likely be part of the firm's mix going forward, Geveda said, considering Coalesce doesn't use high leverage in its deals.

"That's not where we generate our returns, we're about transforming the size and scale of these businesses, not necessarily trying to lever them up as much as we can in order to generate our returns from financial engineering. As a result, having access to additional capital can be important to our strategy, because too much leverage can be antithetical to what we're trying to accomplish with our growth-oriented and thesis-driven investing approach."

LP stuff

Coalesce's first fund has standard terms, with the exception of the carried interest split, which Geveda said is shared with every employee of the firm. Other senior executives at Coalesce include founding partner Henry Stannard, partner Jon Gurss and chief operating officer Bethany Foullois.

"A lot of folks have asked me, 'What's the one thing you learned or your biggest surprise?' and it's all a flavor of the same lesson, you can't do anything that's worth doing on your own. The team plays a very important role and everyone is wearing a lot of hats when launching a firm," Geveda said.

The firm didn't include much capital from traditional emerging manager programs, but they were a way for Coalesce to get to know bigger LPs that could become more significant Coalesece investors in the future.

"The majority of capital we raised was regular-way commitments outside of these pools dedicated to emerging managers," she said. "But there certainly were a number, and some very prestigious groups, that didn't have spots in their established programs to take on a new manager, but utilized these emerging manager sleeves which typically offer smaller commitment sizes in the $5 million to $10 million range to still invest in our fund. These toehold investments are an important opportunity for us to get to know them over the course of our inaugural fund.

"In many cases, the size of their broader institutional balance sheets are tens of billions of dollars, so these institutions could become much more meaningful investors to Coalesce over time," Geveda said.