Disclosure – Non-Independent Marketing Communication.
This is a non-independent marketing communication commissioned by NB Private Equity Partners. The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.

The evolution of an investment thesis

NB Private Equity Partners explain why they think a key advantage of private equity is the ability to magnify potential growth via well timed business decisions...

Update
29 July 2021
Kepler Trust Intelligence

Private equity investors like NB Private Equity Partners (LSE: NBPE) seek out companies with the potential to accelerate growth. However, one of the advantages of private equity is the ability for this very potential to grow significantly through bold but well-timed business decisions...

Private equity investors target businesses with the potential to achieve greater growth, on top of their established business operations. This can be realised through a range of means: often private equity investors are heavily involved with their investee companies, working closely with them to improve margins, explore new revenue streams and even contemplate acquisitions.

Typically, these improvements occur gradually over time, with a business seeing greater growth over a three-to-five-year time horizon. However, occasionally, a single decision or strategy can have a more immediate impact.

A distinctive feature of private companies versus their public counterparts is their ability to take big and complex business decisions that can massively transform businesses without consulting a broad church of, often relatively conservative, shareholders. While this has been criticised in some quarters, it can enable companies to make bold moves that significantly improve their growth trajectory. These transformations are difficult, take considerable expertise and time, and as a result are ideal for private equity investment – where private equity managers can make changes over many quarters, outside of public markets, and without the focus on "quarterly earnings".

For the managers of NBPE, these kinds of game-changing business decisions have emerged within their portfolio a couple of times in recent years, to marked success. Together, they demonstrate the strengths of investing in quality businesses, with able management teams and alongside strong private equity backers that are willing to endorse and drive bold business decisions where appropriate.

Kepler Partners is not authorised to make recommendations to Retail Clients. This report is based on factual information only.

The material contained on this site is factual and provided for general informational purposes only. It is not an invitation or inducement to buy, sell or subscribe to any product described, nor is it a statement as to the suitability or otherwise of any investments for any person. The material on this site does not constitute a financial promotion within the meaning of the FCA rules or the financial promotions order. Persons wishing to invest in any of the securities discussed in the website should take their own independent advice with regard to the suitability of such investments and the tax consequences of such investment.

BCA improves its prospects in a Cinch

BCA Marketplace, now named Constellation Automotive Group, was taken private by a private equity fund in 2019. As Europe's largest business-to-business used car marketplace, it was already an attractive proposition, operating in a relatively defensive sector.

NBPE invested alongside TDR, a UK-based private equity manager, as NB knew TDR well and felt they offered an attractive value-add through their skillset and expertise in growing market leading businesses in Europe, including in terms of shifting the company's operating model towards digitalisation. This thesis was proved correct in 2020, when subsidiary BCA Marketplace quickly and nimbly responded to the constraints of the Covid 19 pandemic, accelerating its digitisation to move 100% of its re-marketing online.

At the same time, the company had been exploring options in the business-to-consumer market. With a reduction in household spending being driven by the economic lockdowns of early 2020, while fiscal interventions protected incomes, demand for cars dramatically rose through the second quarter of 2020. As a result, in July the company launched its consumer marketplace Cinch into an already feverish market.

This was a nascent opportunity that had been identified by TDR at the time of its investment. With only an estimated 1% of used car sales currently happening digitally, Cinch may offer significant growth potential for the business. While the digital

Disclosure – Non-Independent Marketing Communication. This is a non-independent marketing communication commissioned by NB Private Equity Partners. The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.

transformation of BCA has itself improved the group's value, the launch of Cinch has only accelerated the potential for this investment – a thesis that has already borne fruit with the value of NBPE's stake in Constellation being written up in June 2021 from c.$22m to $101m, making it NBPE's largest portfolio company.

Petsmart chows down on Chewy.com

Petsmart is the US equivalent of Pets At Home and has a similar investment thesis. It is the market-leading pet store within the US, has strongly performing well-located physical shops and offers services alongside products within its stores.

It is also exposed to the resilient pet market, with its private equity backers, BC Partners, making the increasing humanisation of pets (and therefore increasing spend on them) a cornerstone of the investment thesis. Indeed, in 2015 at the point of its private equity buyout, the primary thesis was the attractive end market which was growing but also expected to be relatively stable in a downturn, coupled with the opportunity for company specific earnings growth.

Another key thesis of the buyout was to drive growth of the online business. During this same time period, Chewy.com was building a rapidly-growing online pet retailer that differentiated itself through its customer service, comprehensive product offering and loyal customer base.

Seeing this success and rapid growth, Petsmart's private equity manager, BC Partners, opted to acquire Chewy, while keeping it an entirely separate business. While Chewy was loss making at the time, the rapid revenue growth justified the price paid, which at the time was a record amount for an online retailer.

Chewy continued to grow rapidly, to the extent that it was logical to list the business publicly. Two years after acquiring it, Petsmart and its private equity owners listed Chewy at nearly $9bn, an uplift on the $3bn it acquired it for in 2017, and the company's stock price has continued to appreciate in value since then. At the same time, Petsmart defended its own business by investing further into its services offering and using its physical store presence as an advantage, meaning both components of the business have created value in the investment to date. The share price of Chewy has risen by over 250% since it listed and NBPE's stake in the combined business is now valued at approximately $38 million as of 30 June 2021.

Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to market products or make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 9/10 Savile Row, London W1S 3PF with registered number OC334771.