

ANTOINE DRÉAN

Capitalising on savoir faire

Investment firm Triago charts a new course for private equity

PRIVATE equity may have had its comeuppance – deservedly, some would say – in the wake of the international credit crisis. Excessive amounts of debt were heaped on some companies during the years of plenty. Small wonder then that the leap in the cost of finance as banks wobbled and the economy went into reverse brought many private equity firms to their knees. Yet those with businesses in the Middle East have proved more durable, particularly if – like Triago – they specialise in the secondary market in which large stakes in companies are bought and sold.

Triago was founded in 1992 by Antoine Dréan, pictured right, a French national who attended the Wharton School of the University of Pennsylvania in the same year. There he heard venture capital folk talk about how they would like to be more independent. He asked them: would you raise your own fund if you could? The answer was an unequivocal yes. So began Triago.

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by Regan E Doherty

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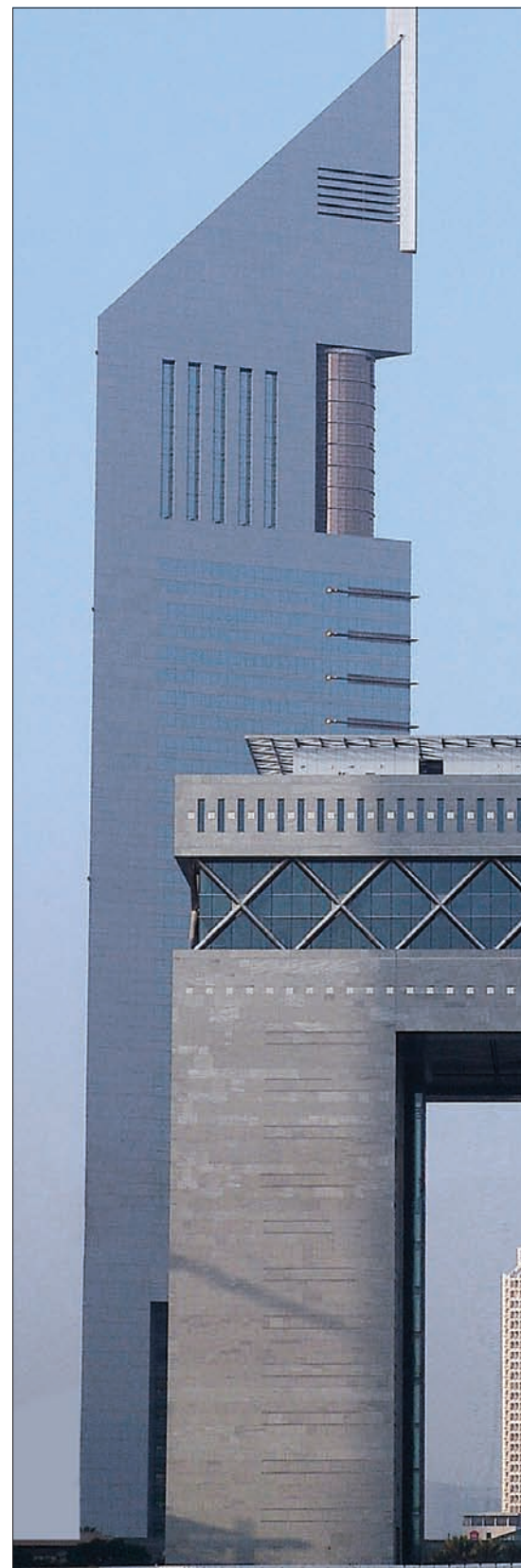
In 2000, the firm opened an office in New York; one at the Dubai International Financial Centre followed in 2007, spurred by the desire to nurture ties in the Gulf. Today, the firm has over 400 core investors in the US, Europe and the Middle East

The most interesting part of Triago's business is the one based on the secondary market, which was launched in 2004. The company helps clients sell what are called limited partnerships, or pieces of funds, for those who wish to exit an investment. Triago creates a market by attracting bids and auctions the stake to the highest bidder. This way, the seller gets the highest price and the enterprise another investor.

It is no easy task. Since investments in private equity can be spread over a decade and sometimes more, getting out of a fund can be tricky. "Selling limited partnerships requires a certain savoir faire," says Dréan. "If you want to get out on the private equity side, you're stuck. You have to find a buyer for something that's completely illiquid."

The secondary market is a particularly good business to be in now since there are more people than ever who wish to get out, either because of cash constraints, a divorce perhaps or simply cold feet. "Everyone's a seller today," Dréan says. "We're there to help them find a good price." It is a specialised role. The company has only two or three serious competitors worldwide.

So far, Triago has brokered about 800 transactions on the secondary side, a





Dubai International Financial Centre

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**Antoine Dréan,
founder, Triago**

business which "allows investors more accurately to manage their portfolios, something which was not possible 10 years ago," Dréan says. Triago acts not only as a fundraiser but as an advisor too.

Historically, private equity as an asset class has outperformed all others. Yet the process of due diligence is much more difficult than for, say, a hedge fund. It requires judgment, finely tuned sourcing and hard work. "When you invest in this asset class, you have to do it with the right group of people. Otherwise, you're in trouble," says Dréan.

The current crisis, in his view, was fostered by a misperception and misunderstanding of risk; many investors assumed the buyout of a large company was safe and so due diligence became less thorough. Private equity buyers "must really look at the numbers, not just at what they give you," says Dréan. Despite the difficult times, Triago still has plenty of investors in the US, Europe and in the Middle East. For many, now is the time to buy since history shows that some

of the best deals often originate in downturns. Of course, it is much harder to raise money today since many investors, for now at least, are waiting on the sidelines. "Everyone's cautious, looking under each and every rock," Dréan says.

Private equity in the Gulf is markedly different from that in the US or Europe – and often for the better. "Before, the deal flow didn't match the buying power," says Dréan. Now, because of the crisis, opportunities are appearing. This is partly because owners have become more amenable to selling non-core parts of their businesses. Previously, the buyout model was trendy and there was little reason to sell. "Now, everyone is reassessing," he says.

This creates opportunities for private equity funds and is likely to increase the flow of deals within the region. Indeed, if you can profit from a bubble, you should be able to profit from a bust too. Areas to focus on include distressed debt, capital and mezzanine finance aimed at growth, and buyout funds for niche markets. Competition for funds is increasing fast. As a result, so is the structure for fees, both for management and on deals. To date, Triago has raised more than 130 funds, only five or six of which produced negative returns. Nor have there been any blowups, says Dréan. He owns two-thirds of the business, with his partners holding the remaining share. This, he believes, gives the firm a special advantage. "When you can make a decision in seconds, it helps." The team of 32 does between eight and 10 fundraisings a year, ranging in value from \$100 million to \$2 billion or above. At the end of this year or in early 2010, Dréan plans to open an office in Hong Kong. He also hopes to reinforce the company's presence in the Middle East.

A few analysts predict difficult times ahead for private equity, estimating that 50 per cent of companies that have been backed by such investors eventually will default on their debt. All told, there is talk of \$1 trillion in losses.

The bubble that thrived on cheap credit and rapid economic growth boosted the flow of deals; in some cases it even led to excessive performance for investors. Yet high debt levels and careless structuring could still bring the market down further. Optimists like Dréan take a different view. With low valuations, low interest rates and increased awareness of the importance of due diligence, some investors will surely be astute enough to recognise a bargain when they see one. As much as anything, he believes, it is a matter of confidence. ■

PROFILE

Antoine Dréan, chief executive of Triago, has more than 20 years of financial experience.



He started his career in 1986 at an advisory firm specialising in distressed investments. In 1988, he founded a firm specialising in mergers and acquisitions which he eventually sold to an investment bank. A 1992 graduate of the Wharton Business School of the University of Pennsylvania and a French citizen, Dréan started Triago that same year. The firm opened an office in the DIFC in 2007.