

# BUYOUTS

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## Talking Top Quartile with Rich Lawson of HGGC

August 31, 2015 By [Steve Gelsi](#)

Huntsman Gay Capital Partners Fund LP, the vintage debut fund from **HGGC**, rang up an IRR of 18.2 percent as of Dec. 31, 2014 for the **California Public Employees' Retirement System**, placing close to a top-quartile performance for that vintage year. HGGC CEO **Rich Lawson** talked about the fund in a phone interview.



**While your debut fund gets strong marks for IRR, is there any other metric you like to use to illustrate its performance?**

We like DPI (distribution per invested dollar), or cash on cash. We invested about \$1 billion of \$1.1 billion raised. We have returned in cash \$1.4 billion out of \$1 billion for a DPI of 1.4x for Fund I. A typical DPI after five years is usually only 0.35x or 0.5x. We've returned \$1.4 billion and we still have four companies left in the fund.

**Tell us about the fundraising. Was it hard to launch a first time fund? The fundraising environment in 2008 must have been difficult later in that year.**

It's always challenging, given it was a debut fund. Overall, 2007 was a strong year for fundraising. We were able to secure \$1 billion in commitments before the financial downturn was in full swing. From a timing standpoint, we had the good fortune of being able to raise most of it before the worst of it.

Our ability to raise the fund despite the accelerating decline of financial markets

reflected investor confidence in the strength of our team and our commitment to old-school, relationship-driven private equity. For us, it's about our investment partners, focusing on boutique deals, and being the largest investor in our own fund. We never buy 100 percent of a company. We encourage owners to reinvest and we back great managers.

### **Could you talk about the deals that drove performance?**

We did 11 core, old-school, middle-market deals, with six tremendous exits out of seven: **Hybris Software** sold to **SAP**, **Sunquest Information Systems** sold to **Roper Industries Inc** for \$1.4 billion, **Citadel Plastics** sold for \$800 million to **A. Schulman**, and **Hollander Sleep Products** sold to **Sentinel Partners**. We also sold **Power Holdings** to **Kelso & Co** for \$380 million and **Grand Isle Shipyard** to **Nana Development Corp.**

We're still holding four out of the 11 core investments: **MyWebGrocer**, **iQor**, **MaMa Rosa's**, and **Innovative Interfaces Inc**

### **What course did you take to navigate the financial crisis?**

One of the things that helped us was being disciplined around identifying great companies with great management teams that we could back.

The other thing that helped us was the structuring of our deals. We didn't over-lever them when there was an opportunity to do so. We spent a lot of time talking with companies about the exit before we closed the transaction.

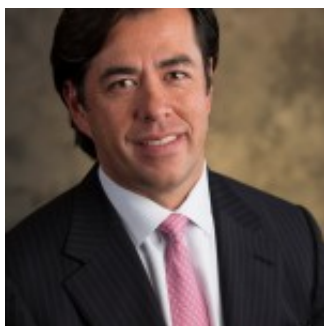
When we approached folks in the crisis and they thought it was too early to sell their company, we would lay out a game plan and say, 'This is how we'll get to X from Y and you'll get liquidity and you'll invest 30 to 40 percent in this new company.' It resulted in an average purchase price EBITDA multiple that was much less than others.

There were people in the crisis who didn't want to sell their company at a bad time, when the market collapsed. We argued that if they can keep running the business and they own up to 49 percent of the company, when things get great, they'll be a huge winner.

## How did Fund I contribute to the evolution of the firm?

Fund I provided the fund performance, including DPI, that we needed to cultivate investor confidence. Fund I's **Hybris** deal generated north of a 5x multiple of money invested. It helped us break through the noise around our team transition when raising Fund II. [Co-founders **Robert Gay** and **Jon Huntsman** left the firm prior to Fund II.] HGGC Fund II came in at its voluntary hard cap of \$1.25 billion, plus \$80 million of our own money.

When you build a firm from a standing start you have to learn quickly. We had an early loss in our core portfolio company, **Turner Brothers**, a specialty transport business. Having a loss makes you even more disciplined. Working through team turnover made us come together as a cohesive unit and made us focused on what works and what doesn't work. It made us more focused as well with bankers, brokers, company founders and managers.



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