



# CAPTURING MEGATRENDS GROWTH THROUGH MINORITY STAKES

- Stanislas Cuny, Amundi

## What is the rationale for starting the Amundi SME Megatrends fund?

My team and I have been involved in private equity financing throughout Europe over the last 20 years. Even though economic growth has been at low levels over the last two decades, we have found small- and medium-sized enterprises (SMEs) achieving annual growth rates of 10-40%. Most of these fast-growing companies are benefitting from one of the five global megatrends. It made sense to start a fund that specifically targets these companies which tap into these trends to achieve well-above-average growth rates.

## What are the five global megatrends?

The megatrends are technology, globalization, demographics, environment and societal changes. We cannot claim credit for identifying these influences – that merit lies with groups such as McKinsey and the Boston Consulting Group. These megatrends will re-shape the global economy over the next three decades giving us long-term visibility over which companies win and lose. Rapid technological change has rapidly reshaped our world and will continue to do so – robotic installations are forecast to grow by 10% a year for the next decade. Globalization has seen a rapid increase in the trade of goods and services around the world. Demographics also create challenges, as populations age and decline in the developed world yet are younger and growing more rapidly in the emerging markets. Environmental changes create concern – not only about the impact of carbon emissions but also the consequence of fewer resources, such as water. The rise of social media illustrates how societies are changing.

## What is the advantage of investing in minority stakes?

Acquiring active minority stakes rather than majority stakes gives the fund access

to a wider universe. That is because we are targeting family-run and entrepreneur-owned businesses which have no interest in selling a stake in their company to a buyout fund. As we are not competing with these funds, we can acquire assets at much better value – the increased popularity of buyout funds has resulted in too many funds chasing too few assets.

## How does Amundi structure its minority shareholder investments?

Over more than two decades we have perfected the way we structure our active minority shareholdings. We often use a combination of preference shares and convertible bonds. These two instruments have seniority over the ordinary shares. This allows us to match ordinary shareholder returns with less risk. We have deep expertise in negotiating shareholder agreements to protect our active minority shareholder rights.

## What is your track record for taking minority stakes in companies?

Despite the inherent risk of acquiring minority stakes, my team has an impressive loss ratio of only 1.3%, compared with a standard loss ratio of 15% among European buyout funds. That gives us a similar risk profile to a debt provider. Not only are we able to manage our risks well, but we also generate an internal rate of return of more than 25%, which puts us in the top quartile of private equity funds. We offer one of the best risk/return profiles in the market. Careful consideration is given to our investments. We only invest in medium-sized companies with revenues of at least €30m. We select companies with a strong balance sheet, a proven business model and long-run profitability. There must also be a strong management team. The combination of careful company selection, using our expertise to help companies to achieve their goals and efficiently structuring our

minority shareholdings all contribute to our favourable risk/return profile.

## How does Amundi access these family-owned and entrepreneur-run SMEs?

Amundi provides asset management products to banks throughout Europe. These banks provide services to SMEs and often act as intermediaries, introducing companies looking for equity financing to Amundi. These relationships give us access to a wide range of investment opportunities. For example, Amundi works with both Credit Agricole and LCL in France. Combined, these banks provide services to 50% of all SMEs in France. The depth of our European network allows us to cherry-pick the best deals. For example, in 2015, we were offered 350 different deals but we chose to invest in only eight.

## What expertise can Amundi offer to these SMEs?

Family-owned and entrepreneur-operated SMEs look for equity capital to finance growth or to transfer an equity stake to a new investor. Growth capital might be required to make an acquisition or to fund organic growth. For these companies, the price of the equity capital is a secondary consideration – qualitative characteristics and expertise of the private equity investor are more important concerns. These companies want an investor that can interact well with the managers, the shareholders and the Board of Directors – someone that can influence rather than antagonise. In addition, they want a shareholder that can help them to achieve their strategic aims. For example, if the company wants to expand into Asia, it will look for an investor that can help with that goal. Amundi's operations in China, India, Japan and South Korea enable these European companies to expand around the globe. In addition to our global network, we are large investors in many of Europe's biggest companies, enabling us to facilitate introductions.

### Can you talk about an investment that illustrates the fund's philosophy?

We invested in Luneau Technology (LT) in 2014. The founders manage this company and have a significant equity stake. This company develops, manufactures and distributes equipment to opticians and ophthalmologists. LT is a high-tech medical equipment company with its own 30-strong research and development team. Impairment of vision is a significant problem among ageing populations around the globe. LT sells its products to 40 different countries, including the US, Europe and Asia. The company sells lower-cost products to emerging markets and high-tech products to developed markets. And so the company exploits three

megatrends: technology, demographics and globalization. Since our investment two years ago, LT has experienced strong organic growth as well as making two acquisitions in the US and France, and a third one is planned in Asia shortly. In 2016, it generated revenues of €90m, an increase of nearly 30% over two years, and it now employs 350 people.



### AMUNDI PRIVATE EQUITY FUNDS

With more than €6bn in assets under management(\*), Amundi Private Equity Funds offers retail and institutional clients a wide range of products tailored to their needs. Clients can invest in two types of products: direct funds dedicated to acquiring direct holdings in non-listed companies (in development and transfer phases), and funds of funds dedicated to investing in private equity, private debt and infrastructure funds. This specialized subsidiary is an authorised management company fully-owned by Amundi. Publicly traded since November 2015, Amundi is the largest European Asset Manager in terms of AUM(\*\*), with over €1,000bn worldwide and more than 4,000 employees. Headquartered in Paris, France, Amundi is the trusted partner of 100 million retail clients, 1,000 institutional clients and 1,000 distributors in more than 30 countries, and designs innovative, high-performing products and services for these types of clients tailored specifically to their needs and risk profile.

### STANISLAS CUNY

Stanislas Cuny joined Amundi Private Equity Funds in 2011 to manage the direct private equity activity. Stanislas started his career in 1991 in Paris, with a managing position at Compagnie Générale des Eaux (Veolia) before joining the European private equity firm 3i in 1998, where he spent about 10 years as Private Equity Funds Investment Director in France. In 2008, he moved to Pictet Asset Management in Geneva, to launch a private equity fund dedicated to the water industry. He then moved to Industries et Finances, a Paris LBO fund before joining Amundi in 2011. Stanislas has an engineering degree from ENSTA ParisTech and a MBA from HEC Paris.

[www.amundi.com](http://www.amundi.com)

\*As at 30 June 2016

\*\*Data at 30 September 2016. No. 1 in total assets under management of management companies with their main headquarters in Europe - Source: IPE "Top 400 asset managers" published in June 2016, based on assets under management at 31 December 2015.

*Disclaimer: The Amundi SME Megatrends investment program is constituted of a French "Fonds Commun de Placement à Risques" (FCPR) registered with the "Autorité des Marchés Financiers" (AMF) for retail investors and a French "Fonds Professionnel de Capital Investissement" (FPCI) dedicated to professional investors. The investor's attention is drawn to the fact that it is a long term investment program with no certainty of return. The investor may not, on its own initiative, require to redeem its shares during the fund term. The fund may not be in a position to sell the portfolio interests within the time frame and for the value initially foreseen due to contractual restrictions. Past performance may not be a reliable indication of future performance.*