# 'Small buyout market' suffering restricted capital amid VCT changes

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**The recent changes in the venture capital trusts (VCT) legislation have severely restricted the amount of capital available in the 'small buyout market', according to WestBridge Capital managing partner Guy Davies.**

In the past 12 months, stricter limits have been imposed on the investments VCTs are able to make.

The most significant changes mean that VCTs are no longer able to invest in companies older than seven years; are prohibited from investing more than £12m in any one company; and are no longer permitted to invest in certain types of transaction, including management buy-outs.

"The changes have meant that the amount of capital available has reduced, so competition for transactions is even more limited, which has provided greater opportunity for established small buy out investors," says Davies.

"These businesses don't come at huge prices but they do need a significant amount of professionalization and support. At WestBridge, we invest in good quality companies at between five to seven times EBITDA."

Davies believes the VCT changes have helped promote the benefits of small MBOs to institutional LPs.

"The change in legislation has really raised the profile of 'small buyouts' in the LP community. Good quality VCTs are raising institutional funds and reinforcing the opportunity to make strong returns in our niche," says Davies.

"LPs have traditionally had limited access to the smaller MBO market because experienced managers have tended to raise larger funds and invest in bigger companies. There are a small handful of managers who have or will raise institutional funds, and LPs are taking a closer look at experienced managers with strong track records like ours."

WestBridge makes investments of around £8m in profitable, successful and fast growing companies, irrespective of sector.

Instead of a sector-based strategy, the London-based buyout house targets companies that have good business attributes and that operate in growth sectors where they are the number one or number two.

The firm recently completed an investment in ISG, which Davies described as the perfect example of a WestBridge transaction.

"ISG is making approximately £2m and is a leading business in its niche. It has a strong and ambitious management team who were brought in to run the company by its previous owners and have spent the past two to three years successfully developing the company. We are supporting them to take the business to the next level."

Earlier this year, Britain's vote to leave the European Union caused uncertainty amongst the global private equity community.

With some LPs holding off on committing and some GPs holding off on making deals, many potential funds and deals have been thrown into doubt.

However, while Davies admits it may have slowed things down a little over the summer, the overall impact of the vote is not causing concern for WestBridge when it comes to making an investment.

"We are investing in fast growing niche businesses, where performance is more driven by micro factors not macro-economics. If a business is in the right sector it will continue to grow quite strongly. Brexit may slow it a little but the fundamentals will remain strong.

"When you overlay the shortage of capital, the small MBO market should continue to provide the opportunity to make outsized returns in the medium term."