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How AnaCap’s Joe Giannamore plans to beat the odds

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Sequence, execute, win

What happens when you launch a private equity firm dedicated to investing in financial services at a time when asset valuations are so madly inflated you can’t find anything to buy? You adjust your strategy and build start-ups. But then what do you do when Lehman Brothers blows up and turns an already challenging predicament into something altogether more dangerous? Throw in the towel? In his first ever interview, AnaCap Financial Partners founder Joe Giannamore, a former internet entrepreneur and horse riding professional, explains to Philip Borel how and why his firm has managed to get through it all.

PHOTOGRAPHY BY MARK HÄKANSSON
Joe Giannamore likes to talk, and there are certain words he loves to use. ‘Sequencing’, for example. Sequencing matters. Because when you’re Joe Giannamore, sequencing how to tackle a problem step by step is a big part of what you do.

If you do it well, you give yourself a chance to succeed even when the odds look stacked against you. Just like Giannamore did in 2005, when, at the age of 37, he decided to quit his new-found career in professional horse-riding to break into institutionally backed private equity – based on what was effectively a one-deal personal track record. To get it done, he sequenced the countless items on his to-do list. And it worked.

**Aiming High**

Nine years earlier, he had struck out on his own to launch On:line Finance, Britain’s first ever digital car loans business. He did it after five years in investment banking: prior to becoming an entrepreneur, the London Business School graduate had been hired by Guy Hands at Goldman Sachs, where he experimented with securitisation; he then signed up with Salomon Brothers to set up a distressed debt trading operation.

With On:line Finance, which started in 1996, Giannamore pioneered internet-based lending some time before online financial services entered the mainstream. Merrill Lynch provided capital in return for a piece of the equity. The business plan was predicated on the company winning a one-percent share of the UK’s used auto finance market. It quickly got to approximately seven percent. Four years after opening for business, Online was sold to General Motors (GM) and shareholders generated substantial returns.

GM asked him to take over as CEO of GMAC UK, its auto finance operation. Giannamore accepted and together with Peter Cartwright, one of his partners in On:line Finance and who now works as
AnaCap’s co-managing partner, reorganised the business. In 2003, he chose to retire.

Then came an unusual career change: he decided to become an international-class equestrian (as you do). Giannamore hadn’t grown up around horses, but developed a passion for riding after moving to London as a student; he was already in his thirties when he entered his first tournament.

Like business building before it, horse-riding became an all-consuming project, and Giannamore took it on with his trademark approach: breaking down and understanding every aspect of what it would take to catch up with the sport’s elite. Implausibly, he was soon competing at the highest level of three-day eventing and even reached the US national team – “in a bad year for the team and the best year of my short career” – as a reserve. He has the look of an active rider even today.

In 2005, for his next (and still ongoing) trick, he chose private equity investing and fund management.

Despite his short CV as a dealmaker, and lack of experience as a custodian of third-party capital, Giannamore was once again aiming high. When AnaCap Financial Partners, the firm he launched, started fundraising, few of the blue-chip institutions invited to invest had heard of it or indeed its founder. However, having secured the help of Credit Suisse to place the fund, and after two and a half months of active marketing, AnaCap had raised €300 million from an investor group including Goldman Sachs, Allianz, State of New Jersey and Adams Street Partners.

Says one of the early backers: “Joe can be a pretty persuasive guy. He knew something about a sector that most people don’t understand, and with On:line he’d proven that he could take a concept and build it out. And he’d already brought some private equity expertise into AnaCap.” Another attraction, the investor adds, was that the funding needed to build the company’s infrastructure was coming from the Giannamore family trust.

Prior to meeting the first LP prospects, Giannamore threw himself into planning the campaign – meticulously. “My objective more than anything was to compete with the best and the brightest in an industry where I felt we had at least a defensible position given our industrial experience. For the fundraising, we had zero defensible position and needed to be exceedingly well organised. I spent six months preparing, in very granular detail, before speaking to anybody.”

The preparation consisted of “literally sequencing every single step it would take to be successful. We had a Plan A, and we had sequenced events to successful conclusions for

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about 10 or 11 additional scenarios that could possibly occur. So that even when you had to pull out Plan C, it still should have ended in success."

Statements describing this hardcore methodical approach permeate Giannamore’s narrative throughout the PEI interview, and it becomes clear very quickly that his really is a programmatically-named private equity firm: AnaCap Financial – analytics before capital.

LOVING THE UNLOVED

Analytical work requires access to good information. Another source who has worked with him says: “Joe is tough and intense – and he’s big on data. He loves sifting through numbers.”

Over the years, AnaCap has spent heavily on a proprietary IT system. With the circa $1.1 billion of equity including co-investor capital deployed thus far, the firm has invested in eight portfolio businesses, and each one is connected to its owner via a digital data feed. “We have the data for the majority of our businesses’ origination in our systems at 8 o’clock the next morning. Every business has a centralised database as part of our 90-day plan so that we have the data here and don’t bug them every day for it. When they see it, people are blown away by how much data we have.”

The other vital ingredient in the AnaCap formula is the team. Now with two private equity and two credit opportunity funds totalling €1.6 billion under management, the firm has a headcount of 42 people. Working alongside the two deal teams, AnaCap has a portfolio support division as well as a group of six staff dedicated to risk and liability management. It’s a sizeable outfit for the assets under management. “Our scale benefit is just beginning to come through,” notes Giannamore.

The architecture of the firm is again something he has thought about deeply. He describes AnaCap as an operationally engaged deployer of private equity with a liquidating trust and a requirement to return capital, and as far as the focus on operational engagement is concerned, it is full-on: “We want to grow everything we own, even when we buy it as a distressed asset, and we use every resource and tool we have to do that. We’re in each of our businesses three or four days a week.”

Extraordinarily, the total amount of debt currently on the AnaCap portfolio stands at just €6 million. “Our job is not to put leverage on an asset to make money,” Giannamore explains. “Our job is to take unloved, poorly structured subsidiaries of large institutions and also entrepreneurial firms and grow them – via actively managed risk capital.”

For people wanting to join the firm, knowing something about financial services is of course a plus. More importantly though, and unsurprisingly given the firm’s philosophy, candidates need to be good project managers. Giannamore says AnaCap is a tough place to work – technocratic, tactical and disciplined. “It’s not for everybody, but most people we’ve hired have stuck around. I think they feel like an elite military unit: target, monitor, review, plan, execute, win.”

It’s the sequencing theme all over again, this time couched in military terms. Giannamore never joined the armed services, but agrees that he would probably have made a decent soldier: “I’d have stayed in the foxhole till the end.”

SURVIVING LEHMAN

With Fund I in place, AnaCap began scouting for deals. 130 transactions were looked at and rejected in Year One. Syscap, an IT leasing and specialist lending business, was the only established company AnaCap acquired during this period. Its next three investments were start-ups.

The decision to fund the formation of entirely new companies was a deviation from the firm’s initial blueprint, rather
than an original component of it. Recalls Giannamore: “We didn’t want to do start-ups, but the problem was that the risk-adjusted returns on offer, the prices people were paying and what they were getting for them, was crazy.”

He says that to him and his colleagues it was already clear at the time that the financial services industry was heading for a significant correction, and that this played a part in the firm’s decision-making. Even without an exact sense of just how bad things would soon get, AnaCap felt the deals it was seeing weren’t ones it should pursue. “We were beginning to think we might not really be up for this, not willing to take risk where we were supposed to be taking it. But in hindsight, when I think back to some of those deals… I don’t want to name any because other people actually bought them, but some of them were just catastrophic.”

So instead of investing large sums of money in established businesses, AnaCap pressed on with its newly minted strategy of investing smaller amounts of burn capital in order to create new platforms.

Base Commercial Mortgages (BCM), which nowadays trades as Aldemore Bank, came first. AnaCap was keen to enter the specialist mortgage market, but baulked at getting involved with what Giannamore describes as the sector’s prevalent business model at the time: borrow money wholesale, outsource the middle and back office functions, lend. “We saw businesses that were in effect doing nothing but deploying capital, and we thought there wasn’t much value in such limited core competency installed in them.”

AnaCap decided to a build a new entity from scratch and, with a seed investment of around £30 million, launched BCM to provide commercial mortgages to UK SMEs. Like most of its peers, BCM would still fund itself in the wholesale market. Unlike them, it used the AnaCap money to erect its own state-of-the-art technology platform, which enabled it to keep the core administrative processes in-house.

By late 2007, BCM was making inroads into its targeted segment. However, huge trouble was brewing in the credit markets, and AnaCap realised that funding the operation wholesale would not be sustainable. By the time Lehman Brothers (which ironically was BCM’s principal source of capital) blew up in September 2008, AnaCap had already embarked on a plan to overhaul BCM’s funding model, and to replace wholesale borrowing with retail deposit-taking. For this to be possible, AnaCap had to enter the banking market.

If backing start-ups had been an unexpected reaction to unforeseen developments, going into banking was an even more radical adjustment to the AnaCap strategy. According to an AnaCap briefing note on Aldermore, “given the complexity associated with making and managing investments in the regulated deposit-taking market, AnaCap had no expectation of entering this sector and stated in both our private equity PPMs that we were unlikely to do so unless there were ‘exceptional circumstances’.”

After Lehman, circumstances were just about exceptional enough. In the ensuing panic, wholesale funding dried up overnight, and AnaCap now had no alternative but to complete the already ongoing switch to deposit-taking – and fast. In short order, the firm re-underwrote BCM’s
The Aldermore story, like On:line Finance before it, also fast in the jungle would have probably blown up, because had we had any legacy was transformational and helped the firm mature, by stretching its organisation and investment style in ways that no-one on the team could have anticipated.

FAST IN THE JUNGLE

The Aldermore story, like On:line Finance before it, also reflects the AnaCap axiom that in financial services, although it is an industry dominated by large, global institutions with high barriers to entry, it isn’t necessarily a case of ‘big eats small’ as Giannamore puts it: rather it is ‘fast eats slow’.

The idea is that as a private equity investor with a ten-year time horizon specialising in the field, you are unlikely to invest in a business that will ever get close to a controlling market share. But because many of the things financial services companies do are nowadays done digitally, even a small piece of the action can make a small player profitable, in part because there is no need to replicate the expensive and often outdated inventory of hard assets that the incumbents tend to have.

To illustrate: AnaCap now has three banks in the portfolio, all of them profitable. Between them, they have fewer than 15 branches.

Asked about the main milestones of the AnaCap evolution so far, Giannamore instantly highlights the fact that all the businesses in the portfolio have made it through the enormous crises of the past years. He says not losing any of them hasn’t just made the difference between success or failure, but between survival and extinction: “We’ve gotten through a unique credit cycle as an infant, when you would have thought we’d have died very quickly.”

Looking back to the horrors of the crunch in 2008, he says: “I think people sometimes forget how serious this was. If you can’t buy money, you can’t sell it, and there was no money to buy at any price, anywhere. And if we hadn’t done the start-ups we would have probably blown up, because had we had any legacy assets, credit performance would likely have been so poor and good will charges so high that we probably couldn’t have justified supporting them through the cycle. Now we’ve got businesses that are growing at a healthy rate.”

He points to AnaCap’s performance indicators to back up this last claim: new asset origination across the portfolio has gone from €300 million in 2007 to €2.2 billion in 2011; portfolio revenue has increased from €32 million to €305 million; credit losses have consistently been below the average budgeted target of 1.5 percent; and annual portfolio company earnings have risen from €4 million in 2007 to €51 million last year.

Comments an investor in the two AnaCap private equity funds: “They started at the worst possible time and it looks like they’ve come through. Fund I won’t be as good as it might have been without the crisis, but fundamentally it will be fine. And Fund II has some very interesting concepts in it.”

Giannamore says AnaCap is unlikely to invest in start-ups again, at least until the cycle gets horribly inflated again, because today there are interesting opportunities in other areas. He says the euro crisis is of course a relevant development, but not perhaps in ways one might think: “The euro crisis is creating massive risks that are very unquantifiable and make you nervous, and it’s also creating some opportunities. But in a sense we like to stay away from both and just focus on being in the system, and being a reasonable market share participant in what are some very large, cemented markets.”

European financial services assets stand at over $17 trillion, he notes, of which AnaCap has “basis points” under management. “If total assets contract to €14 trillion, or go to €20 trillion, it makes no difference to us. That’s why I like the industry: we can be fleet of foot, fast and small in the jungle, without ruffling the industry – which ultimately will always buy market share.”