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A no-nonsense chat with Patron Capital founder Keith Breslauer PAGE 94

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Agnostic to sector, devoted to deals and alive to the devil in the detail. Bridget O'Connell talks to Patron Capital founder, Keith Breslauer. Portraits by Tom Campbell

Patron saint

Tireless. Frenetic. High-speed. Pocket dynamo. These are some of the descriptions given to Patron Capital managing partner, Keith Breslauer.

In person, Breslauer doesn't disappoint. The former Lehman Brothers banker who founded the private equity firm in 1999 is also brutally honest, likes a good anecdote and is a little bit sweary. Not attributes you necessarily need to lead a successful pan-European real estate investment manager, but they have worked for Patron.

With around €2.5bn (£1.9bn) of funds under management, the firm's portfolio reflects an eclectic selection of deals spanning hotels, nursing homes, petrol station retailer chains, five-a-side football pitches and youth hostels, alongside more traditional real estate such as sheds and offices.

Its geographical focus is less diversified. Deals are concentrated in the UK and western Europe's largest markets, albeit with a couple of historic outliers in Romania and Russia.

Playing firmly in the mid-market, with equity investments of €30m-€90m, Breslauer explains that Patron's strategy is a little bit different from some opportunistic players who target value-add investment but then use leverage as a key component of their strategy. By contrast, Patron is comfortable with operational risk and restricts leverage to 50% across its funds.

He points to the Cala Homes deal as a good example of this. Patron bought the house builder in partnership with Legal

CHARITY BEGINS AT THE OFFICE

Patron Capital boss Keith Breslauer is probably as well known for his charitable endeavours as for his real estate work. The kayak in which he paddled across the English Channel as part of the Royal Marines 1664 challenge takes pride of place on the wall of the firm's West End headquarters on Vine Street. Breslauer was not the only participant from the firm who took part in what he refers to as a "jaunt", with a moonlight marathon attracting other staff members. He has also scaled various peaks, including Kilimanjaro and the US's El Capitan nose route, all in the name of charity.

& General for £210m in March 2013. It was a case in point of backing the existing management team, which had been constrained by a lack of capital after falling under the control of reluctant owner Lloyds Banking through a series of debt-for-equity swaps.

Investments made by the firm's fourth vehicle, its 2012-vintage €1.1bn Patron Capital IV, have followed the opportunistic strategy pursued by the firm since it was set up by the New Jersey native 15 years ago.

At two-thirds invested, investments are, broadly speaking, 60-70% "distressed" situations, which could include liquidity-constrained operators, borrowers or developers; 20-30% businesses with underlying property below its intrinsic value; 10% institutional non-core stock; and 5% "complex situations".

This strategy is likely to continue for the next three to four years, says Breslauer, but as the recovery takes hold across the Continent, the balance of geographies will change.

"Historically, a lot of the deals we have done have been in the UK because that's where a lot of the banks have sold first. We are going to see a lot more on the Continent – that's our assumption, that's where banks will be selling more."

Specifically, this means the UK and Germany, followed by Spain and Ireland, then France and Italy. The deleveraging of Irish assets means Patron has already notched up a few deals with Nama, and it is also set to capitalise on Spain's recovery by backing its local partner Meridia Capital to form an €800m jv.

The increasing continental flavour will be strongest in the firm's upcoming fifth vehicle, for which Breslauer anticipates kicking off fundraising next year. He hopes to repeat the success of the fourth fundraise – which comfortably exceeded its €750m-€1bn target, taking in €780m from outside investors and a further €320m in co-investment – but is firm in not wanting to go bigger.

Hand-in-hand with more fundraising comes the end of the investment period for fund four – around the close of 2016 – and the realisation of previous investments to deliver the promised target of a 17-22% gross internal rate of return and 1.8-2.2x gross equity multiple.

This hasn't been a problem in the past, despite one competitor saying: "It is very, very hard work to deliver those returns consistently through the cycles – Patron has done very well."

Flush capital markets and the operational bent of Patron's portfolio have built expectations for future IPOs. Breslauer agrees that "there is a perception" that the Generator hostel business will IPO next year, [five-a-side football business] Powerleague "if it got bigger perhaps in a year to a year and a half and Cala Homes...are all pretty powerful propositions for an IPO".

> "Powerleague and Cala Homes are pretty powerful propositions for an IPO"

While he insists this success is down to the 70-strong in-house team, it is hard to escape the notion that Breslauer is, in essence, Patron. This raises the question about what would happen to the firm without its "ultimate key man", something one source said Breslauer "must constantly ask himself".

If so, he would not be the only one doing so in the fund management industry, which is populated by personality-driven firms.

But this does not detract from the respect Breslauer and his straight-talking approach have won in the industry. A description by another peer, echoing what Breslauer himself would probably say, is that the Patron boss "doesn't try to bullshit the market if he has done a bad deal – as we all have. He is honest about it. You can only be honest about the bad deals when you've done 45 deals and 35 of them are winners, five are OK and five are bad – because then you've got the track record."

Asking Breslauer what Patron's best and worst deal have been elicits the longest pause of the interview – but not because he wants to dodge the question.

"Well, I'm just thinking, how do you define 'best' and 'worst'? Is it the most money I made or the most interesting transaction or the one I thought was going to be terrible?"

The worst deal, he says, was "a German industrial deal called Philips which we lost money on...that was a pretty crappy deal. It was a boom-market situation. It was a combination of what went wrong, but the starting point was that it was a very complex deal – for it to work, four or five things had to happen. When you put all the issues together, it was just a serious money-loser."

The best – one that has been sold and has been successful, he says – was the Vectrane portfolio of French offices built up in early 2005, listed in Paris by the end of the year and exited two years later at a 20% profit to NAV. "Very successful financially, not that complicated but still interesting" is Breslauer's summary.

Common to all Breslauer's deals is a high level of attention to detail, which he says is a foundation of the business.

"When you're not detail-focused, you make a lot of mistakes. Some people will criticise that because you might miss the flow and the wave of money, and we try to capture that. We are not always successful at it, but that's what we try to do. We don't do gigantic deals because we are not playing the beta – we are not playing the market."