

St. Louis **Business** Journal

FEBRUARY 3, 2012

Thompson Street raises \$350 million



Jim Cooper – Senior managing partner

*St. Louis Business Journal -
by Angela Mueller*

Thompson Street Capital Partners has closed on a \$350 million private equity fund, the third — and largest — fund in the firm's 12-year history.

The Clayton-based firm will use the funding to add more companies in the service, distribution and manufacturing industries to its existing portfolio, which already includes 20 companies bringing in a total of \$650 million in annual revenue.

Investors in the new fund, dubbed TSCP III, were primarily repeat institutional investors from Thompson Street's previous fund, TSCP II. Jim Cooper, Thompson Street's senior managing partner, declined to name investors but said they included pension plans, fund-to-fund managers and endowment funds. Some local institutional investors put money into the fund, but about half of the commitments came

from Europe, Cooper said of the TSCP III fund.

Fundraising for TSCP III was launched in the summer, with most of the money from the repeat investors committed right away. But finding new investors to round out the fund took a little more time.

"Right now, the market is difficult for fundraising," Cooper said. "There is less money available and more people trying to access it. The trends are not great, and you have to fight that."

Thompson Street, which did not work with a placement agent this time around, closed on the fund the week of Jan. 23.

"It took a little longer than we thought it would, but we're pretty happy with the way it turned out," Cooper said.

Nationwide, private equity fundraising floundered in the second half of 2011, according to a recent report from New York-based research firm Preqin. In total, private equity

funds raised \$262.6 billion in 2011, down from the \$274 billion raised in 2010, although the 2011 number may increase as more data becomes available, according to Preqin. On average, the length of time a fund spent on the market before closing was 16.5 months, down from the 18.7 month average reported in 2010. Currently, 1,823 private equity funds are in the fundraising stage, seeking a total of \$739.6 billion.

New fund, same strategy

TSCP III will have the same investment strategy as Thompson Street's previous fund, with a focus on Midwestern, family-owned businesses valued at \$50 million to \$150 million.

"There are not a lot of changes in strategy between fund two and fund three," Cooper said.

Cooper and his team already are eyeing potential acquisitions

for the new fund but declined to disclose any specifics. “We’re always in the market looking at companies,” Cooper said. “We have a couple companies we’re looking at to buy for fund three, but you never know for sure until you close.”

Thompson Street raised \$300 million for TSCP II, which closed in 2006. The firm raised \$145 million in its first fund, which closed in 2001.

TSCP II is ranked as an upper quartile fund by Cambridge Associates, meaning it performs in the top 25 percent of private equity funds tracked by the research firm. As of Sept. 30, 2011, Cambridge Associates’ U.S. Private Equity Index, which includes data from 905 U.S. private equity firms, reported a one-year investment return of 13.76 percent, as compared with a 3.83 percent return from the Dow Jones Industrials Average and a 1.14 return from the S&P 500. The Private Equity Index had a five-year return of 8.11 percent, as compared with 3.15 percent from the DJIA and a loss of 1.18 percent from the S&P 500. Cooper declined to provide specific returns for the firm’s first two funds.

Thompson Street investors have reaped the benefits of several recent exits. In May, the firm sold Atlanta-based Iron Data LLC to Arlington Capital Partners, a Washington, D.C., private equity firm. Although terms of the deal were not disclosed, at the time

Thompson Street Managing Partner Bill Willhite described Iron Data as a “very successful investment for us.” Thompson Street invested in Iron Data in 2007, and led the business process outsourcing firm through a merger with I Levy and Associates of Chesterfield and the acquisitions of Toronto-based Versa Systems and Raleigh, N.C.-based CAVU Corp. Iron Data had more than 400 employees in 11 worldwide offices at the time of the sale.

In 2011, Thompson Street also took one portfolio company public. Thermon Group Holdings Inc. went public May 5 at a price of \$12 a share and has since climbed 46.5 percent to close at \$17.58 a share on Jan. 30. San Marcos, Texas-based Thermon Group provides heat tracing products and external heat sources to prevent freezing in pipes. The company reported \$68 million in revenue for the quarter ended Sept. 30, 2011, up 7 percent from the previous year’s quarter.

Thompson Street’s current portfolio includes two local companies — St. Louis-based Colo4, a colocation service provider and data center, and Sauget-based Universal Air Filter, a manufacturer of air filtration products.

Slow and steady

Thompson Street reached \$650 million in 2011 revenue, up 12 percent from \$580 million in 2010. Cooper attributed the jump to organic

growth across Thompson Street’s portfolio companies and the acquisition of New Hope, Minn.-based Vaddio, a manufacturer of robotic video camera systems.

Vaddio was the only acquisition last year for Thompson Street, which typically buys two to four portfolio companies a year.

Cooper said Thompson Street anticipates “slow and steady” growth again in 2012. “Across our portfolio, we have companies that continue to grow,” he said. “The acquisition market is frothy at this moment with people paying higher prices for companies. It’s harder to find good deals at the right prices.”

Deal flow is slow at private equity firms across the nation, according to a recent study by accounting and consulting firm BDO USA. Seventy percent of private equity fund managers expect to close only two or three deals in 2012, according to the report. In 2011, 47 percent of fund managers reported closing no new deals, and another 19 percent reported closing only one deal.

“Private equity fund managers are approaching the new year with cautious optimism as uncertainty in Washington and Europe continues to impact the global economy,” said Lee Duran, partner and private equity practice leader at BDO.