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FUND NEWS

Palladium Aims \$520M Fund At Hispanic Market

SNAPSHOT:

Firm: Palladium Equity Partners

Fund: Palladium Equity Partners III

Target: \$500 million

Amount raised: \$520 million

Placement agents: Ariane Capital Partners, DAV/Wetherly Financial

Legal counsel: Simpson Thacher & Bartlett

Select limited partners: BBVA, CalPERS, CalSTRS, the GE Pension Trust and the New York City Comptroller's Office

For the pros of **Palladium Equity Partners**, the explosive growth in the United States' Hispanic population puts them at a distinct advantage. The growing economic power of American Hispanics means an ever-increasing economic opportunity, and the group says its cultural affiliation gives them an edge in sourcing deals. Limited partners are convinced: the New York-based firm closed its third fund with \$520 million.

The new vehicle, **Palladium Equity Partners III**, had an initial goal of \$500 million. It held a first close in October 2004 with less than \$200 million and following subsequent closes, held a final close on March 20. The fund, which is the largest to date that focuses on the U.S. Hispanic market, has a traditional 80/20 split and an 8% hurdle rate.

The firm expects to invest the fund over the next five to six years in middle-market companies serving the U.S. Hispanic population and related markets. Palladium will write equity checks

that range from \$15 million to \$50 million in size.

Limited partners include Spanish financial services giant **BBVA**, Spain's **Telefonica Pension Trust**, the **California Public Employees' Retirement System (CalPERS)**, the **California State Teachers' Retirement System (CalSTRS)**, the **GE Pension Trust**, the **Los Angeles City Employees' Retirement System**, and the **New York City Comptroller's Office**, among others.

Overall the fund received about one third of its capital from LPs based in Spain and one third from California LPs, with the bulk of the fund's balance comprised of institutional investors in the New York and Connecticut area. Palladium's directors did most of the fundraising themselves and used a few smaller placement agents to approach specific LPs.

While Palladium is focused mainly on deals that market to the U.S. Hispanic population, it's not 100 percent. "We have a very broad mandate in terms of doing deals," said **Marcos Rodriguez**, a founder and managing director of Palladium. "If we find an attractive deal that does not have a Hispanic angle... we absolutely have the flexibility to do that deal."

Rodriguez says that the type of companies Palladium targets fall into four basic categories, indentifying businesses that market products directly to Hispanics in the United States, companies that sell Hispanic-influenced products in the mainstream markets such as ethnic foods, Hispanic-owned businesses and companies outside the U.S. that want to operate domestically in the Hispanic market.

He noted that one of the challenges of

raising the fund was that the vehicle is breaking relatively new ground. "There isn't a 20-year track record of established private equity firms focused on the U.S. Hispanic market to measure," said Rodriguez. "That was a challenge but that's also the opportunity."

Palladium III made its first investment last year when it purchased Mexican food chain Taco Bueno (see *Buyouts*, Sep. 5, 2005).

The fund also has approximately 10 deals in its pipeline that are close to the letter of intent stage, according to Rodriguez. The firm sees the greatest deal flow in areas with already high Hispanic populations such as California, Florida, Texas and the New York City area, and it is seeing a lot of growth in areas where the Hispanic population is rapidly increasing, such as Georgia and North Carolina.

The improving demographics would seem to support the firm's strategy. Hispanics currently comprise the largest minority in the U.S. as of 2002 and are growing five times faster than the rest of the U.S. population.

The U.S. Bureau of Economic Analysis has also found that the rate of U.S. Hispanic purchasing power is growing at a rate of almost three times the rest of the nation and that Hispanics own more small businesses than any other ethnic group in the United States.

Palladium's first fund was a \$94 million pledge fund raised at its founding in 1997, while Palladium Equity Partners II, the debut's successor, raised \$231 million in 2000. The firm's previous funds have generated returns of more than 30% and Palladium is anticipating an IRR of between 25% and 39% with Palladium III. —M.S.