Palladium Equity Partners LLC had only been around for three years since its launch by CEO Marcos Rodriguez when it acquired Wise Foods Inc. in 2000 as a carve-out from B.W. Holdings LLC, an affiliate of Borden Inc. and KKR & Co. (KKR).

The middle-market firm revived the ailing brand by widening its distribution into Spanish bodegas and other urban stores. In 2012, Palladium Equity sold Wise Foods to Arca Continental SAB de CV, one of the largest soft drink bottlers in Latin America.

David Perez, president and COO of Palladium Equity, said the deal fit the buyout shop’s theme: If a company doesn’t have active institutional capital or if it’s a brand that’s meaningful to someone but it doesn’t get the attention that’s required to thrive, the New York firm will take a look at buying it.

“With Wise, we were able to buy it from a larger holding company and over time – through twists and turns – transform it into a more focused, growing brand for a new, urban demographic and attracted the attention of a strategic partner,” Perez said.

While Wise Foods, an investment from Palladium Equity’s vintage 2000 Fund II, cemented its reputation as arguably the first private equity firm to focus on businesses that serve the rapidly growing Hispanic market, its deal net is wider as it moves to deploy the $1.56 billion Palladium Equity Partners V LP fund, the largest in the firm’s 22-year history.

Since Palladium Equity launched in 1997, it’s handled 33 investment platforms and more than 130 add-on deals. Its 2005 Fund III has had 12 platform investments and 75 add-ons, and its vintage 2013 Fund IV has had 12 platform investments and 27 add-ons. The firm is planning up to 15 platform deals in Fund V, the same as previous funds, with a focus on founder-owned companies in overlooked sectors that haven’t attracted a lot of participation from other private equity firms. Fund V also will look to consolidate fragmented industries.

“We’ve completed quite a bit of add-on acquisitions,” Perez said. “We believe those are important and help us re-balance the portfolio. Since you’re not deploying all the capital on day one, you’re deploying it over time and you’re less susceptible to economic cycles. It’s become a core element of our value creation.”
After an acquisition, Palladium Equity looks to improve portfolio companies via a strategy summarized by the acronym GOL – the Spanish word for goal. (See chart below.)

The firm takes six to 18 months to add operations muscle from the senior level to middle management and invest in capital expenditure such as better technology. It also works on the composition of the board of directors, often by adding independent board members. That also takes six to 18 months and can happen at the same time as the leadership phase, or after.

“Often we’re dealing with a lack of infrastructure because founder-owned companies are very skinny,” Perez said. “When we buy companies, we need to change that and create better operational systems. That takes six to 18 months. If we get the ‘L’ and the ‘O’ right, then the company has the right people to grow organically, launch new products, get into new regions and grow inorganically through buying companies in adjacent businesses and regions.”

One example of the type of transaction that Palladium will pursue in its new fund is Fund IV portfolio company CircusTrix LLC, which it purchased through a limited sales process in January 2017.

In less than three years, the firm has built the Provo, Utah-based company into be the world’s largest player in the indoor trampoline business. It also bought the biggest player in the sector, SkyZone LLC, which uses a franchise model for indoor trampoline parks. The firm just named a new CEO of CircusTrix, Fernando Eiroa, the former CEO of Parques Reunidos SA, who took the leisure park operator public in 2016.

“That’s a common theme in our rollups – we try to get in early to consolidate,” Perez said. “The multiples for add-ons are much smaller, and you can put together something of scale much earlier.”

Other examples of successful Palladium Equity rollups include Abra Auto Body & Glass LP, sold to Hellman & Friedman LLC in 2014; Prince International Corp. and Prince Erachem International Corp., sold to American Securities LLC in March 2018; and Jordan Health Services Inc., sold to Kelso & Co. and Blue Wolf Capital Partners LLC last May.

Another good example of where the firm is headed is Fund V portfolio company Spice World LLC, Perez said. The firm acquired the Orlando, Fla., company about one year ago after studying the ingredient market for years.

Spice World has been family-owned since it launched in the late 1940s. The founders retained a stake in the company after Palladium acquired it – as is the case with many of the firm’s transactions. In a year, Palladium Equity brought in a new CEO, CFO, vice president of operations and independent board members.

“This is a very private family that wanted to run a very discreet process and only team up with a player who understood what it took to effect a transition in an orderly and successful way,” Perez said.

Spice World also stands out because the firm’s products are popular with the 25% of the U.S. population that’s growing most rapidly – Asian and Hispanic people, Perez said. It also appeals to the growing popularity of Southern European cooking, whether it’s from Spain, Greece, Italy or elsewhere in the region.

“People are cooking more with garlic and using more processed garlic to save time,” he said. “Plus, garlic has a positive wellness impact.”

On the hiring front, the firm has three junior analysts joining in a few weeks. It’s always looking for junior and midlevel talent to add to its staff of nearly 50 people, according to Perez.

The firm’s investors include California Public Employees’ Retirement System, which committed $194 million to Fund III in 2004. The investment has delivered an internal rate of return of 16.1% to Calpers and an investment multiple of 1.8 times. CalPERS committed $75 million to Fund V last year.

Looking ahead, Palladium Equity continues to branch out from deals focused on the Hispanic market, although those transactions remain a priority for the firm.

“Back then [in the early 2000s] it was a core and a headline part of our strategy,” Perez said. “We were the first fund to do that that was able to raise a fund. It performed very well. It’s still an important element in what we do, but it’s an arrow in our quiver rather than the only arrow in our quiver.”