

▶ **Hollyport Capital completes the restructuring of the first generation Quester funds.**

Hollyport Capital has completed the restructuring of a family of legacy private equity funds facilitating their winding up. The last substantial portfolio company in the funds has been refinanced, enabling it to proceed with its expansion strategy; existing fund investors were provided with the option of exiting for cash or retaining an interest in the business through an innovative new structure to be managed by Hollyport Capital.

Over 15 years ago Quester, the leading UK manager of venture capital funds for early stage technology and life sciences companies, raised its first generation of institutional funds. By 2006 it had successfully realised substantially all of the fund investments, delivering attractive returns, and was keen to wind up the funds. The remaining assets were represented principally by a substantial shareholding in Sauflon Pharmaceuticals Ltd, a UK manufacturer of contact lenses and contact lens solutions.

Sauflon was formed in 1985 as a manufacturer of contact lens solutions, and Quester first invested in 1991 to finance the construction of a new manufacturing facility. The company grew its business consistently through the 1990's, commencing contact lens manufacturing in 2004, and is now the largest provider of own brand labelled contact lens care products in Europe.

The rapid recent growth of the business led to the opportunity to significantly expand contact lens production with the potential to double the size of the business in three years. While supportive of the business plan, Quester was not, due to the maturity of its funds, able to commit to this timescale. Some of the investors in the Quester funds believed that the company should be supported while others simply wanted the interest sold at the highest price to facilitate a winding up of the funds. This was clearly not the best time to seek a buyer for the Quester shareholding or for Sauflon itself.

Hollyport Capital was asked by Quester to find a solution to these competing objectives. Recognising the complexity of the situation, Hollyport Capital assembled a syndicate of funders to provide a complete financing solution.

To address the requirements of the company, Hollyport Capital arranged for Bond Capital Partners, a recently established European mezzanine fund, to provide a mezzanine facility enabling Sauflon to proceed with its expansion plans. Concurrent with this financing, Hollyport Capital formed a new limited partnership, CSP Prism LP, which acquired all of Quester's shares in Sauflon. The investors in the Quester funds were offered the opportunity to either exit for cash, or to maintain an interest in Sauflon through CSP Prism. To facilitate this acquisition, Hollyport Capital raised new capital through CSP Prism to fund the cash payment to exiting Quester investors. Hollyport



Capital was thus able to offer an attractive investment opportunity to its high net worth and institutional clients.

As a result of this restructuring, Quester is now able to liquidate its funds in an orderly manner, fulfilling its obligations to its original investors, who have been given the choice of immediate liquidity or maintaining an investment in Sauflon and participating in the next stage of its growth.

John Carter, partner of Hollyport Capital said “It is often the case that private equity limited partnerships reach the end of their original life with a small number of unrealised investments. This leaves managers and investors with the choice of extending the fund, distributing in specie, or pressing for exits which may be poorly timed. This problem is particularly painful when the remaining investments in the fund have growth potential which needs additional funding to realise. Hollyport Capital has provided an elegant solution to just such a problem.”

Andrew Holmes of Quester commented “Hollyport Capital showed a remarkable ability to understand and manage the competing objectives of the various parties, delivering an imaginative solution to a complex set of requirements.”

If you would like to discuss this article, please contact John Carter whose details are as follows:

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For more information on Hollyport Capital please visit our website at www.hollyportcapital.com.