Aterian Investment Partners Raises $257 Million

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NEW YORK, Dec. 23, 2013 /PRNewswire/ -- Aterian Investment Management, LP ("Aterian"), a New York based operationally-focused middle market private equity firm, is pleased to announce the closing of Aterian Investment Partners II, LP ("Fund II" or "the Fund") with $256.8 million of capital commitments. Fund II reached its hard-cap in approximately sixteen weeks.

The Aterian team commented, "We are incredibly grateful for the tremendous support provided to us by the limited partner community. Our investors comprise leading domestic endowments, foundations, family offices, fund of funds, insurance companies and other institutional capital bases. We consider ourselves fortunate to have the opportunity to benefit from these institutions' counsel and involvement with Aterian as we deploy Fund II. We are excited to work on behalf of our expanded investor base while also continuing to strengthen Aterian's established reputation as a creative solutions provider to the middle market distressed, underperformer and special situations marketplace."

Aterian is forming the Fund to continue the team's well-established strategy of investing in underperforming middle market companies and building active, hands-on partnerships with management teams to create significant long-term value for stakeholders. The Fund will generally focus on investing in turnarounds, distressed situations, restructurings, carve-outs, underperformers or other complex investment situations in middle market companies generating $25 million to $500 million of revenue.

UBS Securities LLC acted as the exclusive placement agent for the Fund.

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About Aterian Investment Partners
Aterian Investment Partners ("Aterian" or the "Firm") is an operationally-focused middle market private equity firm focused on investing in businesses that are financially or operationally challenged, yet strategically viable with well-defined reasons to exist. Aterian invests in turnarounds, distressed situations, restructurings, carve-outs, underperformers or other complex investment situations in middle market companies generating $25 million to $500 million of revenue. After making an investment, Aterian, in partnership with portfolio company management teams, seeks to relentlessly focus on the critical growth, cost and liquidity initiatives of a business in an effort to drive value creation. The Aterian principals have extensive professional experience having collectively worked on over 100 transactions representing over $1.25 billion of invested equity as well as $6.5 billion of debt financings.

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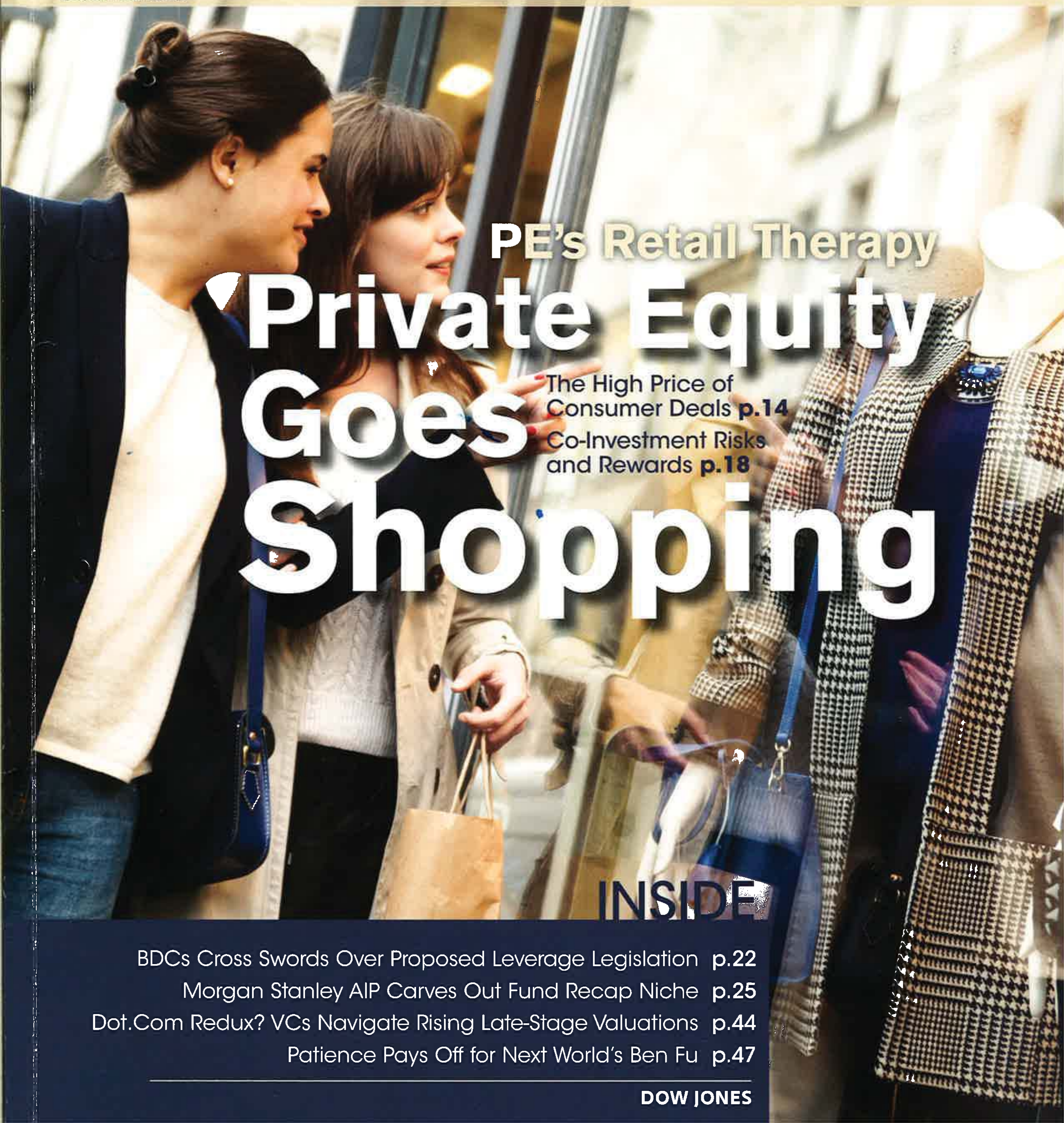
December 2013



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investors may choose to sell to Jasper Ridge. Credit Suisse Group AG was tasked with soliciting potential buyers of the fund interests, one of the people said. The TH Lee Putnam secondary deal is an effort to offer liquidity to investors in the 13-year partnership, said the people familiar with the matter. TH Lee Putnam was formed in 1999 and holds four remaining investments. That TH Lee Putnam still holds onto these four portfolio companies is a result of a difficult exit environment in the wake of the financial crisis, said one of the people.

Marketing Tactic Weighed

Lee Equity Partners, a buyout firm formed by private equity pioneer Thomas H. Lee, is considering offering an unusual incentive for investors to back its next fund: the right to acquire a stake in the fund's $1.1 billion predecessor. Although the New York-based firm has yet to make a formal decision, a move like this, known as a stapled secondary deal, is becoming more common among private equity firms as competition for investor dollars heats up and investors grow more selective. The discussions at Lee Equity come as the firm works to overcome an early loss that has weighed on its debut fund's performance. Although Mr. Lee acknowledged his firm discussed such a possibility, he added Lee Equity doesn't need a special enticement to raise a second fund. "There is a lot of activity in the secondary market," said Mr. Lee. "We have been approached by a number of players in the secondary market, listened but [have] not made any decisions as to what, if anything, we are going to do."

Senators Press SEC

U.S. securities regulators should expedite long-delayed "crowdfunding" rules allowing entrepreneurs to tap investors for small amounts of capital, a bipartisan group of eight Senate lawmakers said. The Securities and Exchange Commission should quickly propose rules that would allow entrepreneurs to use Internet portals to raise small amounts of cash from a large number of people, wrote Sens. Jeff Merkley (D., Ore.), Jerry Moran (R., Kan.) and six other senators in a letter to SEC Chairman Mary Jo White. The letter comes as SEC commissioners prepare to vote on crowdfunding rules, months after the rules were due under last year's JOBS Act. The law requires the SEC to alter its rules so companies can raise up to $1 million annually through small share sales to ordinary investors. Currently, companies are barred from issuing shares in exchange for capital without first registering with the SEC. The JOBS Act allows companies to raise up to $5,000 annually from individuals with incomes less than $100,000. Wealthier investors could contribute a maximum of $100,000 annually.

Prophet Exec Loses Arbitration

In a plotline worthy of the television drama *Dallas*, one Texas-based general partner is on the hook for more than $10 million after firing the co-founder of his firm and allegedly attempting to revoke the partner's share of profits from the fund. Ross Gatlin, a founder of **Prophet Equity** who traces his roots back to Insight Equity and Carlyle Management Group, was ordered to pay more than $6 million to his former partner, George Stelling, after a panel of

arbitrators rejected Mr. Gatlin's claim that Mr. Stelling had breached his fiduciary duty and misappropriated trade secrets. Mr. Stelling denied Mr. Gatlin's claims in a countersuit, alleging rather that Mr. Gatlin was out to seize his share of the fund's carried interest. Mr. Gatlin also was ordered to pay more than $4.2 million to reimburse Prophet Equity LP, the fund comprised of capital raised from third-party investors, for attorneys' fees and expenses in connection with the legal wrangling that started roughly two years ago. The Prophet saga is a prime example of what can befall first-time funds, though such disputes rarely come to light in the secretive world of private equity. Unproven team dynamics are one of the chief reasons institutional investors are reluctant to commit to new partnerships.

Time to Form a Distressed Shop

Given the ebullient public markets, it may seem like an odd time for new distressed- and special situations-focused shops to sprout up. Yet a host of new firms have cropped up in the past 18 months, several of which were founded by teams spinning off from well-known names in the industry, including some that have struggled in their efforts to raise successive funds.

Two former executives of Sun Capital Partners have teamed up with a former principal of Insight Equity Partners to form **Aterian Investment Partners**, a firm focused on financially or operationally challenged midmarket businesses. New York-based Aterian, which is said to be out targeting about $250 million for a new fund and is nearing a first close, struck a few deals independently before seeking institutional capital, a strategy similar to the one pursued by another Insight Equity spinout, **Trive Capital**. Trive struck two prefund deals before setting out to raise $250 million for its debut vehicle. That fund closed in July after bumping up its hard cap to $300 million.

Other turnaround funds have experienced turnover among their ranks, as well. For example, the former co-heads of the distressed investing unit at **Carlyle Group** struck out recently to form their own firm after a more than two-year-long slog to raise Carlyle Strategic Partners III LP.

The rash of new distressed spinoff firms comes at a time when limited partners appear to be hedging their bets in the event of another market meltdown. Through the third quarter, distressed and turnaround funds raised $27.1 billion, a 57% increase from the $17.21 billion raised in the same period a year earlier and eclipsing the total of $21.99 billion raised for all of 2012.