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IPOs

How a British private equity firm became a $100bn tech success

Hg spent two decades taking Visma to the brink of London's biggest tech IPO in years. Can it repeat the trick with bigger, newer funds?

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Nic Humphries, senior partner at Hg © Alex Wheeler/FT montage/Bloomberg

When €19bn software group Visma last month chose London as the venue for its future initial public offering, it signalled a success for the UK capital in more ways than one.

The decision was an obvious boost for the UK's beleaguered capital markets, where IPOs have become vanishingly rare — let alone ones of multibillion-pound tech companies.

However, it was also a milestone for Visma's British backer, Hg: the London-headquartered private equity firm that has quietly built itself into a specialist software investor and is on track to surpass $100bn in assets under management this month. That is bigger than better-known US buyout rivals such as Advent and Warburg Pincus and cements its position as the second-biggest British private equity group behind CVC.

Hg portfolio companies

Company	Specialism	Valuation	Year
The Access Group	Business management software	£9.2bn	2022
IFS	Software vendor	€15bn	2025
Iris	Accountancy and payroll software	£3.2bn	2023
Team.blue	Tech services	€4.8bn	2024
Septeo	Software for professionals	€3bn	2024
AuditBoard	Connected risk platform	$3bn	2024

FT research; year refers to date of valuation, not investment

Hg offers a rare tale of success in the otherwise underwhelming European technology sector. But it has thrived in an era of cheap money and limited competition in Europe from other technology investors. Now, having attracted a deep well of capital, Hg's dealmakers must prove they can repeat the trick with its bigger, newer funds in a period where the conditions that facilitated its rise no longer hold.

"They've grown up as the pre-eminent software investor in Europe," said one investor in Hg's funds. But they noted that selling companies, not buying them, was now the firm's biggest challenge. "The larger companies get, the harder they become to exit . . . The IPO window has to be open."

European IPOs have slowed to a trickle over the past three years. Each time dealmakers believe the window of opportunity on the continent's capital markets is about to reopen, a new hair-trigger abruptly shuts them again. In Frankfurt, IPO hopefuls, including Stada and Brainlab, pulled their floats at the last minute in recent months. In London, groups raised just £160mn through IPOs in the first half of the year, according to data from Dealogic, the worst showing for the stock exchange in data going back 30 years.

By listing Visma in London, Hg will have to learn to withstand the scrutiny that will come with being the sponsor of one of London's biggest IPOs in years. That will be all the more intense for the lacklustre performance of recent tech IPOs such as Deliveroo, and the troubled record of some previous private equity-backed offerings, such as Permira's float of footwear portfolio company Dr Martens.

Hg started out as a more traditional private equity firm, founded in 1990 as part of Mercury Asset Management, which itself was absorbed into Merrill Lynch Asset Management a few years later. By 2001, when its now senior partner Nic Humphries joined, its partners had spun Hg out as an independent business. But by 2007, when Humphries took over the reins, technology still only accounted for half of the firm's deals by number.

That was Hg's sliding doors moment. "We could have chosen to be a multisector, generalist mid-market firm," Humphries told the Financial Times. But that would have left the firm in "10th or 11th place", with non-specialist rivals such as EQT and CVC already expanding across Europe.

Others were starting to follow a similar path: Vista in the US was already leading in software, and Thoma Bravo was switching to focus on the then-niche sector. "It was a huge debate as I was proposing to turn half the firm on its head," Humphries said. He won, turning Hg into a specialist private equity group and alighting on a strategy that would eventually take it to the threshold of $100bn.

Hg declined to comment on the firm's fundraising activities.

It was Humphries who landed almost two decades ago on Visma, the business that would grow into Hg's defining portfolio company. The Norwegian payroll and accounting software group was battling a takeover attempt from UK-listed enterprise software group Sage, and Hg was Visma's white-knight acquirer.

After the traditional private equity hold period of four years, some at Hg pushed for a classic full exit. But Humphries told them, "If this was a Nic Humphries pension fund, I wouldn't sell one penny."

Recent Hg exits

Company	Specialism	Valuation	Year
TeamSystem	Enterprise software	€7bn	2024
F24	Business resilience software	-	2024
Argus Media	Energy and commodities data	$4.6bn	2024

FT research

That decision to stay invested in Visma has come to be one of the defining characteristics of Hg: its desire to roll over investments in assets by shuffling them between funds rather than cashing out entirely. Now a commonplace private equity technique, at the time it drew mockery. "Their competitors used to make fun of them," said one of the firm's advisers, "saying is this one where Hg sells to Hg?"

Private equity dealmakers selling assets between their own funds is controversial because of the possible conflict of interest when they are on both the buy-side and sell-side. Some fear that they could put their finger on the scales to drive the price higher or lower — whichever suits them best on that deal — to the detriment of fund investors on one side.

Hg has repeatedly reinvested in Visma. Typically some of the old Hg fund and external investors have cashed out stakes to a newer Hg fund and other new, independent backers.

Multiple Hg fund investors said the involvement of external groups, such as Singapore's GIC, gave them confidence in the pricing and that they would have been unhappy if Hg had lost out on the upside by exiting Visma too early.

The same fund investors said they kept flocking back to Hg because of its impressive internal rates of return, a measure used by the industry as a proxy for performance.

Between 2008 and 2023, Hg and Thoma Bravo had more funds with first-quartile internal rates of return than other groups studied by research company The Fund Review — although the analysis was based on self-reported and thus incomplete data and does not distinguish between realised and unrealised gains.

Where Hg did encounter pushback from investors was on the amount of cash it was distributing, or more accurately, the lack of it. The Teacher Retirement System of Texas, one of its backers, told Hg about a decade ago that the firm needed to hurry up, and it set about trying to improve its cash distributions to investors — so-called DPI, or distributions relative to paid-in capital.

Most of the British firm's older active funds, which managed about £7bn at launch, have now distributed at least two or three times investors' cash, according to documentation seen by the FT. "They have been phenomenally good at generating DPI," said one Hg fund investor.

The improvement in Hg's overall distributions has in part been helped by a clever trick, however. Hg was among the first firms to accelerate distributions by borrowing against some of the assets in their funds, the industry's use of which has attracted criticism from some investors.

A partner at Hg said the firm's borrowing to return cash was "a tactic, not a strategy" to ensure timely distributions, that its use was not premeditated and that "if our broader clients ever really don't want us to use these, then we won't — their opinion matters the most here". They added that the firm would only ever use borrowing to return at most a fifth of originally invested cash.

Borrowing, including from Blue Owl Capital and Carlyle's AlpInvest, has accounted for about 5 per cent of the firm's overall distributions in the past decade. But that shoots up to about half for the proceeds that Hg has sent back to investors so far from its 2020 large-cap fund, according to people familiar with the matter.

That leaves open a question about whether the model that worked so well on Hg's smaller, older funds still holds at the scale at which the group is now operating.

Hg's newer funds, launched since 2020, are generally much bigger than its older vehicles, together managing almost £25bn at launch. But it has become harder to inconspicuously source gems than when Hg first started investing in European software.

"There's no question it's more competitive today than it was," said one of the firm's advisers, with Advent and EQT formidable competitors.

As for selling assets, two Hg funds that started deploying five years ago have returned half or less of investors' cash. They do not have long left to meet Hg's ambitious target of returning all invested money before a fund's fifth birthday, though a person familiar with the firm said it was normal to only start selling assets in a fund's fourth year and that the target was usually met during year five.

The Visma IPO, expected to take place next year, will mark the start of a new chapter for the firm.

Hg explored an IPO for Visma several times in the past but retreated instead to private recapitalisations. Now, however, with the company potentially too big to keep private, the success of its planned listing will test whether Hg can prosper as one of the world's biggest private equity firms.

"What began as a regional business has become Europe's largest private equity-backed software company," Humphries said of Visma. "This proves our ability to scale as industries transform over decades.

"We have a culture and strategy that positions us at the heart of [the] technology-driven workplace transformation," he added. "That's what makes the next 25 years just as exciting as the last."