Rantum Capital: Boots on the ground

By: Mona Dohle | 22 Jan 2016

The recipe is really simple, yet unusual: Rantum Capital is a German alternative asset manager offering private debt financing to established German small cap businesses commonly known as the German *Mittelstand*, which in turn offers investment opportunities for institutional and high net worth (HNWI) investors.

Looking at the biographies of the co-founders, it is easy to see how the idea for Rantum Capital developed. In 2013, Dirk Notheis set up Rantum Capital in cooperation with Marc Pahlow (*pictured*), whose previous work experience included stints at private equity firm Carlyle Group, Goldman Sachsand McKinsey & Co. Rantum Capital is named after a village on the island of Sylt, situated just off the North Sea coast of Schleswig-Holstein, famed for withstanding storms.

Notheis is a familiar face in Germany as former CEO of Morgan Stanley Germany. He left Morgan Stanley in 2012 following his involvement in the Federal State of Baden- Württemberg buying a 43% share in the energy business EnBW. Notheis is close friends with Stefan Mappus, who at the time acted as state governor of Baden-Württemberg. Notheis was cleared of corruption allegations by the public prosecutors office Stuttgart, and remains a well-connected business figure in Germany.

DISTINGUISHING FEATURES

The manager's initial fund – Rantum Capital Private Debt Fund I – had its first closing last summer, raising about €100m, predominantly among

German and European institutional investors. Rantum Capital argues it offers features aside from the average private equity fund.

The most obvious one is that investment decisions rely heavily on the selection process provided by 13 industrial partners, which are industry representatives from key *Mittelstand* sectors. They include Joachim Hunold, founder of Air Berlin, Thomas Ebeling, CEO of ProSieben Sat.1 Group and former CFO of Henkel and board member of Thyssen Krupp, Lothar Steinebach.

Historically, the German *Mittelstand* has been reluctant to obtain funding through private equity funds, because the latter operate via leveraged buyouts, which family businesses in particular tend to avoid.

“We focus on sponsorless situations with companies that don’t have a private equity fund owner and are traditionally hard to access because they are already quite successful,” explains Marc Pahlow, co-founder and managing director of Rantum Capital.

Another reason why these businesses are harder to access is that they are often based in small towns, according to Pahlow. “The vast majority of *Mittelstand* businesses are based in a small town with less than 50,000 residents. You need to have boots on the ground to access these firms,” he stresses. Rantum invests between €2m and €100m in subordinate and mezzanine debt of businesses with €15m to €500m in revenues.

“Due to the increasing regulatory requirements for banks there has been a growing gap in the provision of subordinated loans to German *Mittelstand* businesses. We aim to play into that,” explains Pahlow. Another distinguishing factor is that Rantum Capital does not have any cross selling motivations.

“Because we focus on providing subordinate debt, we get quite a few calls from local savings banks asking if we could assist one of their clients with a subordinate loan. These banks often have long term relationships with the respective clients and are therefore reluctant to pass the deal on to a rival bank, which is why they are more open in working with us,” Pahlow explains.

However, precisely because of the close links between *Mittelstand* businesses and local savings banks, investing in corporate debt is of course not without its pitfalls – as the notoriously high level of non-performing loans in sectors such as the shipping industry illustrates. “It is important to learn from these mistakes,” argues Pahlow. “We are only looking to invest in modest leverage positons and tend to have a conservative lending position.”