Kainos Capital co-founder alleges 'frat house' culture amid plot to steal stake

By Kevin Dowd

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Seven years ago, Sarah Bradley left her position as a managing director at Investcorp to co-found a new Dallas-based private equity firm called Kainos Capital. If a new lawsuit filed by Bradley this week in Delaware chancery court is any indication, it's a move she today very much regrets.

The blockbuster suit levies a host of allegations against Kainos co-founders Andrew Rosen and Robert Sperry, as well as chief financial officer David Knickel, including that they attempted to "steal" Bradley's 25% stake in the firm's investment manager and that they turned Kainos "into a frat house," replete with "forced overconsumption of alcohol and general debauchery," along with "shaming and coercion" of anyone who pushed back. Bradley alleges that she was "groped by a drunken Kainos executive" at a firm retreat in 2014 after what the suit describes as "dangerous levels of drinking."

Kainos denied the allegations to media outlets, saying it was aware of the "regrettable filing." The firm didn't immediately respond to a request for comment.

According to Bradley's suit, Rosen, Sperry and Knickel planned in 2016 to convert Kainos from an LLC into a limited partnership as a way to eliminate Bradley's stake in the firm. The suit alleges the three men misrepresented the conversion document, saying it would not change Bradley's stake in Kainos, and told Bradley she had to sign the agreement immediately to prevent a delay in closing the firm's second flagship fund.

Bradley (left) and Rosen (right)

The idea, Bradley says, was to keep her in the dark. "The ultimate goal," the suit alleges, "was to cause both Bradley as well as Kainos's investors" to believe that Bradley still maintained a 25% interest, which in fact she had been "excluded altogether from ownership." It wasn't until late last year, the suit says, that Bradley learned the truth about the firm's official new structure.

What type of firm is Kainos Capital, exactly? It's a middle-market investor that mainly targets deals in the North American food and consumer products sectors, with **24 completed private equity investments** since its 2012 founding, according to the PitchBook Platform. Its most well-known portfolio companies might be SlimFast, the purveyor of weight-loss products, and San Francisco chocolatier Ghirardelli.

The first has closed two flagship funds, a $475 million debut that wrapped up fundraising in 2013 and an $895 million follow-up in 2016—the same vehicle Bradley alleges was used as a ploy to take away her ownership stake.

Also included in Bradley's suit are some notable details about the firm's fundraising process, including the struggles it had in locking down cash for its debut. That, she alleges, was due in no small part to the controversial past of Rosen: Before he enlisted Sperry and Bradley to help launch Kainos, Rosen had been a principal at HM Capital Partners (fka Hicks Muse Tate & Furst), a now-defunct private equity firm that had been involved in a pension scandal. That connection led to a potential keystone investor backing out of Kainos' debut.

Maybe that was Bradley's first sign that something was amiss. We'll likely find out more as her lawsuit against her old co-founders winds its way through the legal system, but at first glance, it certainly doesn't paint a pretty picture.