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Unique Viewpoints from Industry Leaders

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Editor's Note: *Michael Korzinstone is a Senior Principal at Cinven, an international private equity firm with a 30+ year track record. Michael has 13 years' experience in IT private equity investing. Currently, he is responsible for TMT sector investing in the Americas and has been involved in a number of tech-focused investments, including the firm's recent investment in procurement software company Jaggaer. Prior to Cinven, Michael was with Silver Lake where he identified, evaluated, and executed investment opportunities across the technology and technology-enabled sectors. He has a BS in Economics from the Wharton School of the University of Pennsylvania.*

Tell us about your background and how you got into private equity.

I'm originally from Toronto. After graduating from Wharton, I joined Silver Lake, a tech-focused private equity firm where I spent 10 years. At Silver Lake, I focused on large-scale investments across a range of tech and tech-enabled businesses, from software and services to tech-enabled distribution.

Cinven is one of the longest standing private equity firms going back 30+ years in terms of its track record. While the firm is headquartered in London, it has been active in the US for some time, between portfolio company operations, bolt-on M&A, and exits including the successful IPOs of both Medpace and Avolon on the NYSE; the sale of HEG to GoDaddy; and the sale of Phadia to Thermo Fisher. And so it made sense for Cinven to establish a dedicated, on the ground presence in the US to enable the firm to additionally pursue new investments, particularly in the tech space. I was recruited to Cinven to help launch its US-focused TMT effort.

What is Cinven's investment philosophy?

There are numerous ways to generate attractive returns in private equity. Our approach is to identify good-to-great businesses where there is an opportunity to partner with management to drive accelerated growth. The way we do this most often is by organic investment in product and/or or go-to-market. We take a conservative approach towards debt financing for our portfolio companies. When making long-term investments in product or go-to-market, it often requires temporarily taking profit out of the P&L. If you take the last dollar of debt, you just don't have as much flexibility to make these long-term investments.

A great example of this is Amadeus, where we invested more than $1 billion in product development to develop the company into the world's leading Global Distribution System for air capacity in the travel technology space. Since the IPO of the business it has continued to grow into a valuation of over $20 billion today. This is similar to what we've set out to do with our recent investment into Jaggaer, one of the leading global procurement software companies. We're making very significant incremental investments in both product and go-to-market to further differentiate the company in its market.

I would also add that as a firm, we do significant amounts of buy and build. It's a core Cinven value creation lever. Our last fund made over 240 acquisitions across 17 portfolio companies. In all cases, there was strong industrial logic and true synergy potential. However, we don't pursue roll ups as a primary thesis – while there are many successful examples of this strategy in the market, we believe this approach is far less durable.

How does Cinven differentiate itself from the competition?

Our footprint is large given our global network of offices. But we put in a lot of effort to make sure we're highly coordinated within the firm and are able to collaborate very effectively. This translates to being able to leverage our global relationships and capabilities effortlessly – we often find this comes in handy when our portfolio companies look to enter new geographies and markets.

We also take a particularly thematic approach to our investments. Our TMT sector team regularly undertakes sub-sector reviews to look for and identify the best opportunities, in theory, in a given sub-sector across geographies, even if the companies might not be immediately actionable for investment in the near term. We then spend time on only the select few opportunities that we really want to own and where we can be differentiated, either because of relevant past experience or from other angles that we've spent significant time developing.

This approach has become a calling card for us, and we've found that it resonates well with both sellers of businesses, as well as with bankers and other intermediaries. We don't hang around the hoop or place speculative bids on assets to try to create options in auction processes. Sometimes this means passing on good opportunities early, but this approach has built up our credibility in the marketplace.

Walk us through how Cinven approaches its role with management teams after it makes an investment.

This is an important question and, for a founder or CEO considering a new investor, probably just as important as valuation.

We think that the line between owner and operator is an important one. We view our job as empowering management but, at the same time, being available as and when called on. Once we make an investment, we see the relationship between us and the management team as a partnership. We don't take a prescriptive approach and we try not to mix too much into the day-to-day operations of the business. Given this approach, we only invest when we see eye to eye with management upfront and where we've built a real camaraderie.

We have frequently found that management teams find it helpful early on in an investment to identify a few specific actionable projects where we can help move the needle; where management would otherwise not have had the time or the right in-house resources to undertake these. These are often initiatives that we've brainstormed with management within the first few months of making our investment, if not before. To support these projects, management can call on a host of free resources from us, including access to other members of our investment deal team, our portfolio team, our other in-house resources on legal and ESG, and our bench of senior advisors to effectively provide part-time senior strategic counsel and experience. We recently brought onboard Mike Arenth, former CEO of software company HotSchedules to sit alongside Euan Menzies, former CEO of Vertafore on our US tech advisor bench. Each of our advisors brings a swath of experience that our portfolio companies can draw on, especially across non "day-to-day" topics that most companies face from time to time, but not frequently. This could be a software company navigating a license transition to SaaS or a complex M&A integration.

How has Covid-19 impacted business? And what's your longer-term view on private capital market conditions?

We obviously didn't see Covid coming, but given we were already several years into the most recent economic cycle, as a firm we had been focused on an investment strategy on defensive non-cyclical assets. In particular, we had been looking for secular growth opportunities and/or companies with value levers less correlated to overall economic performance. Jaggaer is a good example of this – recurring SaaS software designed to help companies save money.

Productivity wise, we've actually adapted very quickly to "Zoom-life" (we use Microsoft Teams at Cinven). The lack of in-person connectivity has meant we've had to work harder to maintain our culture, but thankfully all ok so far. Friday 5 pm office trivia nights have helped infuse some fun. I've missed being on the road meeting management teams though. A video conference is a poor substitute for a handshake and dinner.

In the medium term, we will clearly continue to keep an eye on interest rates and capital flows. It has been, and will continue to be, a great time to be a seller of a business, in my opinion. The difference between the investment environment today and a few years ago is pretty clear. Low interest rates have played a role in this, but also the structural increase in private capital, which has translated to high valuations for private assets. The private equity industry is having to work harder for returns. This is why we have been focusing on opportunities where we can develop a differentiated view based on accelerated plans for growth compared to what others are likely looking at and underwriting. This differentiation might be enabled by a more aggressive organic investment in the business or by highly targeted strategic M&A. But to develop these plans requires time and early focus, which is our approach. By aiming for more exciting operational outcomes we can offer compelling value to sellers while also remaining confident about our targeted returns.

What is a key theme you're seeing in the market?

There is a continued and accelerated proliferation of technology across verticals. Companies that wouldn't traditionally be considered technology companies are finding they need to embrace and embed technology to deliver higher levels of customer value and experience – and not just in B2C. B2B customers are increasingly expecting experience and service levels that match what they have become accustomed to in their personal "consumer" lives. Some industries are further ahead than others, but technology enablement is quickly shifting from nice-to-have to must-have.

We think there are multiple ways to invest in this tech-enablement trend. One is identifying the technology and tech-services companies that these historically non-tech companies will need to turn to in order to transform. The “arms producers and arms dealers” – from software vendors to more services-oriented providers such as digital transformation and engineering firms.

Another way to invest in this trend is to identify businesses that aren’t particularly tech-enabled today but who would embrace a partnership with Cinven as a catalyst to accelerate their own tech-enabled path. In this set-up, we can bring our technology experience, capabilities and relationships to a company whose management is genuinely looking for some help and guidance, as well as investment. At Cinven we have dedicated sector teams across healthcare, industrials, consumer, business services, TMT, and financial services, so colleagues are well placed to work closely and collaboratively across the firm to look for these cross-sector transformation investment opportunities.

In August 2019, Cinven announced a significant investment in software provider Jaggaer. What attracted you to Jaggaer as an investment?

We identified Jaggaer during a detailed sub sector review on supply chain management software. Jaggaer is a procurement software vendor that helps companies better manage and track their spending, ultimately allowing its customers to reduce costs. It has leading breadth and depth from a product capability perspective, spanning vendor sourcing to payment straight-through-processing. The company operates across geographies and covers both G&A and direct cost categories. The software generates great ROIs for its customers. Most importantly, we think there are multiple value creation levers that we’ve already started to invest behind, including new product development and sales force expansion.

What is your general exit philosophy for your investments?

Our philosophy is pretty simple. It’s to build good, durable businesses for the long run that will continue to do well long after we exit. We’ve done many IPOs as a firm over the years - more IPOs than most private equity firms in the market. When an IPO is the exit route, it means that the future track record of the companies we’ve invested in is, by definition, on public display for a long time. Fortunately, our companies have performed very well even after we’ve sold the last of our shares. This is made possible by funding growth investments during our ownership with a truly long-term payoff outlook, sometimes longer than our ownership horizon. We’re proud of our track record and buyers of our businesses find value in this approach it because they know, by reputation, that we're not trying to squeeze the last dollar out of our companies.

What advice would you give owners if they are looking for PE funding?

It's important, particularly for an owner-operator or a founder, when they're thinking about taking private equity investment, to find good alignment with their private equity partner at the outset. The reason being is there is such a broad spectrum of different approaches that firms take to investing and managing investments. Spend time up front to make sure the private equity firm you're talking to has a deep understating of your business today and that there is a shared vision. There should also be a common philosophy about how the business might adapt to surprises and changes – even negative – because things do come up over the course of a partnership that will last for 4, 5, or 6 years. This conversation might be instinctively hard to have, but it's worth it. Taking the extra time up front to find the right partner is time well spent and will help ensure a healthy relationship.

Finally, tell us the best lesson you learned in business that you'd like to pass along to others.

Surround yourself with the best people you can and focus on culture. It makes things more fun and almost always brings out the best in you.