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Unique Viewpoints from Industry Leaders

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General Partner, WestView Capital Partners

***Editor's Note:** In this issue, **martin**wolf interviews Matthew Carroll, General Partner, WestView Capital Partners. Matt has been a partner investor in WestView Capital Partners from its inception in 2004. Prior to joining WestView Capital Partners at its inception, Matt was Vice President of Corporate Development for LogistiCare, a leading provider of outsourced medical transportation logistics services. During his tenure, the company's revenue grew from $40 million to greater than $200 million. Previously, he served as an Associate at Triumph Capital Group, a Boston-based private equity firm with more than $1 billion of capital under management. While at Triumph, Matt invested in middle-market healthcare services, business services and communications companies and served on several Boards of Directors, including LogistiCare.*

MW: How did you get involved in WestView Capital? And what's your story?

I joined with my other four partners at the firm's inception in 2004—so we are about to celebrate our 10th anniversary. The general idea was that over the course of the 90's as the founders all grew up in Boston, the private equity sector also grew up and ballooned into its own capital market, ending up with 10 or 20 times the number of firms and 10-20 times the amount of capital than was previously available. Notably, the middle market and lower-mid market funds raised bigger and bigger funds, necessitating bigger checks into bigger companies. Even our own firms were beginning to vacate the owner-operator, lower-middle market space—which we define as entailing $10 to 40M investments in companies anywhere from $15-100M making $3-15M EBITDA.

It wasn't that there were no funds in that space—it was that the major firms serving that sector all went up-market. So our idea was to go back to the size range where we all started. Our thought was that all the well-known, longstanding PE funds can have the $30M+ check size above us and yet we would stay above the SBIC's and Fundless sponsors who will generally want an equity check up to $8-10M. So our plan was that we would wedge ourselves in between—that was cornerstone number one.

Cornerstone number 2 was that we would continue what we started as individuals at our old firm—control-agnostic investing.

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That is to say, we make control and non-control investments. We're fairly unique in that we love non-control—we're not the only folks who do it, but we've done it as long as most if not all – but it is a different general philosophy. Not only are we control-agnostic, we are also leverage-agnostic. Some investments have a decent amount of leverage like a buyout, while there are others with no leverage at all. We tend to resemble to the outside eye one part LBO firm and one part late stage venture capital/growth equity.

The third cornerstone is that we focus on sectors we have had success in and have deep contacts in. Over the past 10 years we've done approximately 23 investments—and of those, about 2/3 of them (and where I spend all of my time) is in what I'll call the continuum of software and services. Anything from regular way, blocking and tackling business services to tech-enabled BPO's and managed service companies, all the way to software, often in niche vertical markets. Health care outsourcing and technology, revenue cycle management in healthcare are really my focus areas. Within software we have done public safety, mobile device management, user activity monitoring—things that are niche but valuable businesses. That's 2/3 of what we do and where I work and how I have come to know Marty. Before that I ran corporate development for a healthcare BPO business that was initially an investment of mine from about 1999 to 2004 so I got a little tour of duty in operations as well as healthcare, technology and logistics, and that formed my focus areas when I came here after we sold LogistiCare.

MW: What sets WestView apart from the rest of the private equity firms? Where did you find your control agnostic philosophy and how is it working for your firm?

I hit a couple of those in the cornerstones. The other thing that differentiates us is being helpful but not intrusive. That's a fine line to ride and it really comes down to having a heightened respect for entrepreneurs and their contributions, and we contribute wherever we can and should, which I feel is an art that we have mastered pretty well. It's a hard art because everyone in our business wants to get in there and understand the data. But in these smaller businesses where all of the management team is busy all the time, if we spend all our time quizzing them and asking them to run analyses for us to satisfy our curiosity we are not doing them a service anymore. If we can, we help them here and there, which may be a little bit every day or may be nothing for weeks.

Primarily, we let them do their business—even though that can be hard to do sometimes. That is one of our underlying philosophies: we are not passive, and we know where we can and can't help. One of the things we are really proud of is that more than 25 of our prior executives and board members and management team are investors in our fund. When we talk to an entrepreneur or owner operator, what we are selling is a partnership mentality—which is a little bit of a soft, fuzzy, "salesy" comment, but there are more 25+ entrepreneurs who have turned to us and invested their personal capital in our fund, becoming lifelong friends and partners. That says a lot to a perspective management team when we tell them that. Ultimately we want them to talk to as many of these existing investors as we will because they trust what our entrepreneurs say "behind our back."

MW: In practice do you also transact with full control investments?

We have been about 50-50 control vs. minority deals. To us it's just math. One of the many things we like about minority deals is that if it is of interest to a company, or its ownership has an open mind to it, that narrows the competitive field because there are not many other firms who will genuinely do minority deals.

MW: Are you ever the secondary investor to other private equity groups or are you the only investor?

Not very frequently. Whether control or non-control we have led 20 or so of the investments we have made. But because we have experience not being the control owner, we are very good co-investors whether or not we bring someone in or someone else brings us in. In most situations, but not always, we are the first real institutional capital into a founder-owned business.

MW: How can an entrepreneur determine whether majority or minority control is right for the firm when looking for a (business) partner?

Every company has a corporate life cycle and the management has to assess what inning of the game they are in personally and professionally. Where we tend to come in and be the right

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fit is in the middle innings. We are not a buyer of companies. We partner with management irrespective of what percentage they own before we come along. At the end of the day it's all about how much does the entrepreneur want to do estate planning to get some liquidity and how much of an ownership stake they want to have going forward. We look for entrepreneurs who want to meaningfully bet on themselves and their company. That is on the quantitative side. On the qualitative side we are looking for people who are open-minded and have respect for our opinion. Some entrepreneurs feel more comfortable if the business is still under their control because if you do a control deal, the private equity fund can fire the CEO. To some entrepreneurs, lack of control of their own destiny is a daunting thought to them. They take a very binary view of either owning the whole thing or selling it. There are lots of options in-between. Most people think the only option is that they can sell most of it in a majority recap or LBO. The other option is what we have been doing as group. An entrepreneur can take meaningful liquidity, yet not be leveraged to the hilt and not have to make operational decisions based on servicing debt but rather seeking what's best for the company for the long term and maintaining control of their baby. When those three things line up, that's where the team tends to gravitate to our investment style.

MW: Can you describe a couple of your IT investments, especially the VaultLogix and OneNeck investment? How are these distinguished from other spaces? What is attractive about the IT continuum to you as opposed to other fields for investment?

At the end of the day, if you have to generalize what is it that we like about the approximately 15 of our 23 investments that are in the general software and services space, whether it's a software-powered service or it's an actual software, what they're tending to bring is automation and efficiency to a process. And that is a core value proposition that generally applies to all vertical markets. I focus on healthcare, and in healthcare there are incredibly disjointed incumbent processes and seams of inefficiencies that niche services and technology can solve. And that's really what we're looking for—a strong product ROI, a good value proposition. And those are universal across our service investments, our software investments, and our

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software-powered service investments. At the end of the day, that probably permeates those companies' stories more than anything else. I believe the other thing that is probably a consistent theme across many of them is (and it certainly is and was to OneNeck and VaultLogix) that you're bringing economies of scale and enterprise-class services to the middle market or to the small/medium-sized business environment. In the case of OneNeck, which was the first investment that we did when we got going with WestView, that was an ERP application management business servicing Oracle, Microsoft Dynamics, Baan, JD Edwards, PeopleSoft—a variety of different ERP applications, as well as hosting those applications and managing the wide-area networks that access those applications. What you were really doing is you were bringing *Fortune 500* caliber IT outsourcing to the middle market. And the reason they could do that was they were doing it at scale. If you're a middle market company in the middle of Iowa, you can't and don't want to hire 3 windows guys, 2 Linux guys, a Unix guy, an Oracle administrator and 2 DBAs—you could contract with OneNeck and you're basically buying pieces of FTEs and a set of best practices that you could never duplicate internally in terms of adhering to ITIL best practices, etc. With VaultLogix, what you're really getting is business class and enterprise class data backup to SMBs. No SMB is going to go buy a shared disk environment just for their 200 GB's of data, but VaultLogix can provide that to them with their network of secure datacenters all over the country—which is a much-upgraded form of business continuity and protection for a SMB than the secretary taking home a tape. Companies like VaultLogix bring the cloud at a reasonable, scalable and affordable price to SMBs.

MW: You recently closed a fund, correct? What were some of the questions that your LPs had for you?

Late last year we closed our third fund at $430M. While I'm not on the frontlines of fundraising, at the end of the day what they see in WestView is that we fill a market void, we've done it well for a long time, we've had very consistent outcomes, and I have been told our management teams rave about us. We're very fortunate—we have many LPs with us since the first fund, and the vast majority of our money comes from our incumbent LPs who have grown with us as we've grown.

MW: Is there validity to the commonly held belief that PE firms are under a lot of pressure to deploy their cash balances soon due to overhanging agreements with LPs?

You hear about this idea when bankers come in to talk to you about possibly selling a company. That's out there, but I believe that's as much myth as it is real. I don’t see guys going hog wild because in a month they're going to lose money—I think it's subtle enough that you might not notice which fund is doing it (because they went up a multiple and they wouldn’t have/shouldn’t have two years ago). I don't think it's as big of a phenomenon as people make it out to be, but I don’t disagree it exists.

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MW: How have low interest rates helped WestView capital?

They help us like they help every other private equity firm, because we do have leverage in many of our companies (whether we borrowed it in our initial investment or we used it to make an acquisition or two), but to a degree it's also a threat. Low interest with flexible terms is a threat to us because we are not the biggest users of leverage. The funds that are willing to really ratchet up the leverage can propose exorbitant valuations that make our proposals look that much different with much less liquidity, and therefore are less attractive. It helps us in some scenarios but can hurt us in others.

MW: Have you seen exit valuations harder to achieve than you expected?

I think valuations are really high right now, but I would put an asterisk on that and say that I think there's a little bit of the haves and have not’s. The real good ones are being priced up tremendously—but a fair amount of the ones that are just "ok" can end up really falling down. There's a little bit of polarization and that seems to have been going on for about a year. But overall, and particularly in the spaces we play—managed services, software, healthcare IT—values are pretty hyped up. But on the other hand they've been pretty high since we founded the firm and since we began investing, yet we've continually found ways to get our capital to work in companies that really fit our model and to generate excellent returns and outcomes for our investors and our management teams.