Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

Transforming tech: private equity's role in digitization

Q&A with Bilge Ogut, Partner, Head Private Equity Technology, Partners Group

Bilge Ogut Head Private Equity Technology

The need for social distancing through the COVID-19 pandemic has accelerated the adoption of digital tools across different sectors, amplifying a whole range of technology investment opportunities. For tech investors, the pandemic has also added another layer of complexity in identifying businesses with the most potential for sustainable growth in a period of profound change.

Following the firm's sale of US digital engineering services business GlobalLogic to Hitachi, Bilge Ogut explains how Partners Group views the technology space, how it transforms tech companies in such a fast-changing environment, and offers a preview into what comes next for private equity and technology.

Technology has become all-encompassing, in particular since the outbreak of COVID-19. How does Partners Group view this space as an investment prospect?

Technology is a hugely dynamic and exciting space. Investing in the tech space is about identifying proven products that enable and improve the way companies and consumers work. At Partners Group, we don't look at technology to identify the next "cool thing." For instance, although blockchain, digital currencies, artificial intelligence and machine learning are fantastic developments, and we have to keep up to speed with them, our focus is more on how these technologies can be applied to solve real-life problems at scale, with broad adoption and long-term use cases.

Through our thematic sourcing approach, we identify situations where technology can transform the way businesses operate. For example, technology can enable a manufacturing business to track operations and prevent accidents by ensuring the workplace is safe in an efficient way and in real time. In financial services, technology adoption has continued to evolve as institutions deploy various solutions to identify and prevent fraud. The most exciting part of technology for Partners Group is its application and what it enables – it opens up a world of possibilities.

Technology adoption and integration clearly varies according to sector. What factors come into play here?

Technology integration varies widely across sectors and the reasons for this depend on a range of parameters. In some areas, for example, there is low digitization because the problem technology might solve is complex and the tools or infrastructure have not matured enough to make deployment effective. We have spoken about remote monitoring for two decades, but mass adoption has only accelerated in the last seven to ten years. Devices and connectivity were just not there in terms of wide and groundbreaking adoption. Today, not only can we have wide-spread adoption, but machine learning opens up insights we thought were not possible until recently. You need a whole ecosystem to make certain tools function.

Data rights is another case in point. In healthcare, there was previously a reluctance to digitize because of concerns around personal privacy. Yet, as we've seen over the past year, events have forced the industry to digitize very rapidly. We expect that post-COVID, digital healthcare will take a step towards broad adoption as well.

On the other hand, some parts of the economy, such as supermarkets, are now having to think very differently about the technology they implement because they are having to change the way they operate. Previously, supermarkets used advanced technologies to optimize shelf space; now they are having to pivot to online delivery and that requires investment in different types of software or solutions.

Meanwhile, in agriculture, contrary to what many may think, there are many applications of technologies such as machine learning or monitoring with drones, and these can optimize production, track the biological process of crops or match them to specific locations and micro-climates. It's a traditional industry, but it has the potential to become incredibly sophisticated using supporting technologies. Finding opportunities for investment in technology themes is about keeping track of what the next problem to solve will be.

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How has COVID-19 affected Partners Group's investment strategy around technology?

The pandemic has clearly broadened the scope of what we all expect to be accessible in terms of our work environments – tools need to be available to every employee, remotely, and anytime. It will open up new opportunities, but we had already identified this space as an area with strong private equity investment potential before COVID. In fact, the pandemic has amplified several transformative trends that we were already tracking, particularly around the digitization of companies and industries.

The pandemic's effect has largely been to focus minds on enabling remote ways of operating. Initially, for example, there was a huge emphasis on businesses ensuring employees working remotely had access to basic functions such as adequate connectivity and collaboration tools. It quickly became apparent that companies needed to invest immediately in these areas. Many of the technologies deployed through this period were already in existence – they just weren't always seen as critical and therefore weren't being adopted rapidly. The pandemic nudged people to use video calling as a default, for example. It has been a big jump, it has changed the way many people work, and it's unlikely to go away.

All this plays into our strategy of targeting deployment of technology that is developed and has reached a level of maturity. There will be an increased focus in many businesses around digitizing workflows and, as a result, physical access or paper-based workstreams will be discontinued. So many companies were still relying on Excel spreadsheets and people still use emails to share information. Yet this can be far more inefficient and insecure than other technology-enabled solutions. There is a lot of opportunity around risk and compliance, for instance, where digitization can make information more accessible, understandable and secure.

How does Partners Group's thematic investing approach apply to identifying technology investment opportunities?

Our thematic investing approach helps us to identify the investment opportunities that are best placed to benefit from significant transformative trends. It also allows us to deprioritize trends when changing market dynamics or fundamentals make them less attractive for investment. We recognize that transformative trends in the technology space can follow very different paths. Some develop very rapidly and take just three to four years to reach maturity; others can take a decade or more to get to that point. Similarly, when a disruptive technology develops, it's often not obvious at the outset what the trickle effects across industries will be. This means some investments are attractive now, while we can keep an eye on those that will emerge in future years. Overall, we look to back secular, long-term trends – an important part of our evaluation process – and we determine what sort of investment is needed to make companies competitive.

An example of this would be software providers. There is often a debate about whether you should back "best of suite" application providers or "best of breed." Our preference would be the latter because these providers have deep relationships with their customers and perform specific functions exceptionally well. We look for original thinkers as opposed to providers that attempt to replicate existing products because we are investors over a four- to seven-year horizon and any company we back needs to have a clear competitive advantage.

What role can private equity play in technology and what skills are required to succeed?

Private equity firms bring significant operational expertise across many different industries to help businesses quickly transform. The technology industry is unique in a number of ways and to successfully execute transformational investing opportunities, you need to be able to connect the dots and provide commercial expertise. More than any other business area, you can set up a business from a garage and then scale up very quickly. Technology company founders are usually highly creative and very smart, yet they may lack commercial knowledge of how to create proof points or the best economic model. For example, we often see founders develop and invent technologies that are more advanced than is needed at a particular point in time and that can make it difficult for them to get market acceptance – customers may not be looking for complex solutions or the infrastructure may not yet be there to support them.

The space is constantly evolving so you need to be a quick learner and bring together many moving parts – this is far more important than in, say, financial services, which is more detail-oriented, or retail, where you need a real knack for knowing what's desirable at any given moment to capture the mind of the consumer. It's such an interconnected industry and, as an investor, you have to understand how the ecosystem fits together. If you want to figure out what the next big trend will be, you have to know what other technologies the business you are backing will rely on. And finally, given the connected nature of the technology world, you need a broad and deep network of executives and experts.

What do you see as the biggest three trends of the future?

The first is that we'll see big developments in technology production. The leap from 56K modems to broadband was massive and, at the time, it was considered "techy" and complicated; today, that's clearly not the case. So, right now, you need people with strong technology development skills to build new technology solutions, but increasingly there are tools being developed that enable "non-techies" to do this. That will be a big game-changer.

The second is that it is becoming much easier to solve complex, every-day problems through technology. It's still quite complicated, for example, for an online fashion retailer to upload a picture showing how an item of clothing really fits a customer, but it is becoming increasingly possible to do this. As a result, technology will become even more pervasive in our everyday lives.

And finally, this means there will be significant opportunities for private equity investment in the sector as it matures. Today, we still tend to think of the technology sector as the home of start-ups and venture capital. Increasingly, though, we are seeing a greater delineation between newcomers and incumbents. We've seen this happen with a number of well-known software businesses, for instance. For private equity investors, this means we'll increasingly be able to find long-standing, stable businesses with strong market positions.

Partners Group's technology portfolio

Technology is a key investment focus area for Partners Group given that Digitization & Automation is one of the giga themes guiding the firm's approach to sourcing opportunities. The firm's technology portfolio currently includes eight direct lead investments, with four in the Americas, two in Europe and two in Asia.

Partners Group has already executed several major transactions on behalf of its clients in the Technology sector so far this year, including the sale of its joint lead ownership stake in US digital engineering services provider GlobalLogic in March 2021, which valued the company at USD 9.5 billion. During Partners Group's holding period, the firm used its entrepreneurial governance approach to implement several transformational value creation initiatives at GlobalLogic which helped support the company's sustainable growth.

In January 2021, Partners Group also invested on behalf of its clients in Idera, a global provider of software solutions for IT professionals headquartered in the US, which valued the company at nearly USD 3 billion. Idera is well-positioned to capitalize on several transformative trends around the growing demand for software tools that facilitate the digital transition.