Finding hidden gems

How is a Swiss-headquartered group winning deals in the highly competitive US mid-market? For Partners Group's Joel Schwartz and Dave Layton, it's all about using its global network to help regional champions with international ambitions

Partners Group may have been one of the first institutional private equity managers in Europe; it may still be headquartered (and listed at the SIX Swiss Exchange) in Switzerland. But these days, its outlook and aspirations are very much global – with North America a key part of that strategy.

In the first half of 2014, for instance, 36 percent of the $4.2 billion invested by the firm on behalf of its clients went into North American deals, only slightly less than the total for Europe. It has three offices in the US now, including its most recent addition (the firm's 18th overall), in Houston, Texas. And it's actively winning deals in the region: most recently, it led the acquisition of healthcare technology provider MultiPlan alongside Starr Investment Holdings in February, in a deal reported to have valued the company at $4.4 billion.

So what's the key to success in arguably the world's most sophisticated and competitive private equity market – particularly at a time when there are widespread concerns that an excess of liquidity in the market is pushing up prices to dangerous levels?

Universal Services of America: *on an accelerated acquisition path*

GROWTH STORIES

"There's certainly a lot of capital in the system, both in terms of the dry powder available to funds and also the financing available from lenders," says Dave Layton, co-head of Partners Group's US private equity team. "That's a talking point for everyone. But everyone's operating in that context. So the question becomes: how do you navigate that environment and come away with differentiated investments for your clients?"

For Partners Group, the first part of the answer is to focus on the mid-market. "If you look at the competitive position in the mid-market, you have something like $142 billion of dry powder chasing 700-800 deals a year," adds Layton. "Whereas at the large cap end, you have $245 billion chasing somewhere between 25 and 50 deals. So while there's no question that the level of competition has increased in the mid-market in the last five to 10 years, we like where we stand. We think there are enough deals to go around."

Then the key is to seek out some "hidden gems" – mid-market companies with a great growth story.

"We're looking for a well-positioned business that's the leader or one of the leaders in its sector, and is well run," explains Joel Schwartz, Layton's co-head. "We're not looking for turnaround deals; we want to invest on behalf of our clients in businesses that have a credible opportunity to grow – either because they've been under-managed, or because they could benefit from sector expansion, or because they could play a role in the consolidation of the sector."

He cites the example of Universal Services of America, a manned security guard business that Partners Group backed in 2013. "That's a very acquisitive business; they started on that path prior to our investment, but the path has been accelerated thanks to the capital we provided." »

» But the deals that are really interesting for Partners Group are those where it can help midmarket companies grow internationally, says Layton. "Partners Group has a large global platform, with 700-odd employees. It's not often you find an organisation with that sort of breadth and scale participating in the mid-market. And we think that's a differentiator for us, because we can provide insight to mid-market companies about cross-border expansion, or strategic diversification, or new product offerings, or best practices from elsewhere."

A case in point is Trimco, a Hong Kong-based labels business that Partners Group acquired in 2012 on behalf of its clients and subsequently helped to buy a complementary UK business, allowing the company to further expand its presence in Europe. "That's been a common theme in our portfolio: taking a business that has historically been a mid-market regional player and helping them look at opportunities beyond that."

Are management teams more open to this kind of internationalisation these days? "They're not just open to it; many are actively searching for it," says Layton. "For every team, in an environment like this, everyone is looking for growth. The international growth component is on everyone's radar; they're just not always sure how to tackle it."

Partners Group believes this is where the firm can offer sellers something that the local mid-market firms will find it harder to provide. "Some do it well. But the sheer size of our footprint makes it a bit easier for us. We've built an internal value creation team; we have a presence in the US, Asia and Europe; we have strong relationships with CEOs. That serves as a differentiator and helps endear you to management teams."

THINKING GLOBAL

The breadth of Partners Group's platform is also important in sourcing deals, according to Schwartz.

"If you look at the way Partners Group is organised: we operate right across the private markets, and within our four different investing disciplines – private equity, private infrastructure, private real estate, and private debt – we have teams doing principal direct deals, secondaries, and primary fund investing," he explains. "From a US direct private equity perspective, we benefit hugely from sitting within a platform like that. We are all shareholders in the firm and on a day-to-day basis there's a lot of cooperation across the different business and product lines."

Indeed, he says, all three of the firm's most recent direct deals in the US came via the firm's extended network: one was a company that had a pre-existing relationship with Partners Group's private debt team, one was originated from a seller that had recently transacted with its secondaries team, and one was introduced through an in-house legal counsel. "We benefit from having a wide spread of other folks across the platform doing a range of different activities – and everyone is incentivised to contribute to the other businesses as well, of course dependent on certain internal considerations."

Having a global platform is also a useful way to maintain a good sense of "relative value", he adds.

"We don't have country-specific funds. Dave and I sit on investment committees that look at mid-market opportunities from around the globe and pick the best deal at that particular point in time. If you look at the portfolio of direct investments we've assembled over the last few months, you can see that – we've done a couple in the US, one in Brazil, a few in Switzerland, one in the UK, one in Germany, one in Hong Kong, one in India… In a market environment where prices are high, you have to scour the globe for opportunities – and then the relative value of one geography versus another becomes very relevant. That's a helpful vantage point to have."

> ***We don't have to do five or six or seven deals per year, just to put the money to work. We're looking for a small number of hidden gems***

Are US deals looking relatively pricey at the moment, compared to other markets?

"According to our analysis, we're more or less on par," suggests Layton. "Historically it's gone back and forth in terms of who's paying more, Europe or the US. The US may be slightly ahead at the moment, but it's not dramatic. Besides, it's really hard to make generalisations in a market like this. For us, in this environment, it's all about finding that gem of an opportunity.

"We also have the advantage that we have colleagues doing the same thing elsewhere. So we don't have a big country fund to deploy; we don't have to do five or six or seven deals per year, just to put the money to work. We're looking for a small number of hidden gems per year in each market – and if we do that, we'll be delivering what we promised our investors: a diversified basket of attractive investments across the globe." ■

PRIVATE EQUITY AT PARTNERS GROUP

PARTNERS GROUP AT A GLANCE

A global private markets investment manager

$46bn

assets under management[1], of which

$28bn
in private equity

$8bn
in private real estate

$5bn
in private debt

$5bn
in private infrastructure

>700

employees worldwide representing more than 50 nationalities

18

offices around the globe

Since 1996, we have invested in more than 100 small and mid-cap companies globally through our direct private equity practice on behalf of our clients. **We are experienced in creating value.**

We share time, expertise and resources to support our portfolio companies, helping these organizations reposition and expand their businesses to attain leadership positions in their markets. We focus on the mid-market globally as we believe this offers the best opportunities for genuine value creation and growth.

Value creation is our priority. To achieve this, our investment professionals work closely with management teams and corporate partners throughout the life of our investments. They are supported by our team of dedicated industry specialists, who capitalize on deep vertical sector knowledge to seek out value creation opportunities.

Sector specialization enables us to offer outstanding partnership opportunities to our portfolio companies. We invest directly in the following sectors: healthcare, consumer, media & telecom, information technology, industrials, infrastructure/energy & utilities, financial services and real estate.

You can learn more about Partners Group at
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[1] As of 30 June 2014