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Executive Perspective®

Unique Viewpoints from Industry Leaders

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Mitch Green

Managing Director, Clairvest Group

Editor's Note: *Mitch Green is a Managing Director of Clairvest Group, a Toronto-based private equity firm with approximately C$1.7 billion of equity capital under management. Since Mitch joined Clairvest in 2002, his responsibilities have focused on investment origination and advisory activities for Clairvest portfolio companies. He previously worked in leveraged finance for BNP Capital Markets and in corporate finance for Bank of America after beginning his career in operations management at Bloomingdale's flagship store. Mitch earned an M.B.A. with Distinction from the Ross School of Business at the University of Michigan and a B.S. with Honors from Cornell University.*

Could you share a bit about your background and how you got to Clairvest at this point?

On a personal level, I worked in New York for four years out of college and decided to go back and get my MBA at Marty's alma mater. I had plans to relocate to the Midwest (hometown Clevelander), but met my Canadian wife in Ann Arbor and was "strongly encouraged" to immigrate to Toronto. In terms of landing at Clairvest, before going back to school, I was providing debt to private equity firms for their investments and was attracted to the industry given the opportunity to work more closely with business owners.

Why is Clairvest a publicly traded company? What are the advantages and disadvantages of being public? Does it change your time horizon?

Our public listing is the result of a small share issuance in the early 1990's. The thinking at the time was the public markets would be an attractive way to raise capital, but we quickly learned that those markets can be volatile and have not issued shares since then. Clairvest's management and board of directors own over 90% of the outstanding shares, so we don't have the same disadvantages of other public companies (like managing for quarterly earnings or potentially hostile shareholders). A big advantage is that our public company has over $500 million of permanent capital that we supplement with funds from third party investors like pension plans and endowments. This mix allows Clairvest to take a long-term approach to our equity partnerships. For example, Clairvest recently bought out the stake held by our third-party funding partners in a successful portfolio company where we would like to stay in with management for a longer horizon.

"We are seeking technology providers that are treated as trusted partners by their customers."

As a publicly traded private equity firm, what kind of reporting requirements do you have?

We report financial results each quarter that include an estimate of the value of our various investments. Importantly, we do not disclose specific financial performance of our portfolio companies. That's often a question I get. "I'm private, but if I do a deal with you, are you going to post XYZ system's revenues and profitability on the internet?" Definitely not.

What is your investment philosophy? What makes an asset attractive to you?

We prefer to partner with owner operators who built a business from inception, so our investment philosophy is different from the traditional leveraged buyout firms. Our primary focus is on accelerated organic growth, augmented by selective acquisitions and the prudent use of debt. We want the focus of management to be on achieving operational excellence, rather than constantly worrying about finding the next deal or how to make debt payments.

An attractive business for us is one that provides a suite of services that are valued by the customer, difficult to replace and reward the provider with reasonable profitability. Our focus is on service providers (both tech-enabled and best of breed channel partners) and we recognize top players provide a mix of activities. Some of these activities will grow while others will fade over time; some will be high margin while others are provided as part of a package. The key for us is that when viewed in totality by the client, the service provider is treated as a trusted partner and compensated accordingly. Of course, we also pay attention to investor keywords like recurring revenue, attrition, and return on capital.

How much of a focus do you have on technology?

Each partner at Clairvest has one or two key areas of focus. As a result, you'll see diverse types of investments when you look at our portfolio. In terms of where I spend my time, technology is two-thirds of it, and the other third is media and marketing, which has a heavy technology focus as well. Last year we invested in Digital Media Solutions, a tech-driven digital agency that generates leads for companies. Best of breed technology with a service wrap is our focus in the media and marketing space.

What are three of the most interesting trends you see in the technology space?

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For Clairvest, an interesting trend is where proven technology is in rapid adoption mode. Some of these areas include (1) data for competitive advantage – tools to gather, analyze and act on data are available to drive the success of almost any company of any size; (2) automation – not just limited to manual or low level service positions anymore – we see AI and machine learning as tools for all levels of the organization; and (3) the connected world – data generated from the mobile ecosystem and the tools to monitor, control and gain intelligence from this will grow for many years.

What are your thoughts on the cloud? What new investment opportunities does it create?

More activities migrating to the cloud and rapidly expanding data generated from the top of the sales funnel (thank you digital media) down to operations data create significant investment opportunities for both technology developers and service providers. Clairvest is not a venture capital firm, so we let our VC brethren invest in the IP that powers the cloud ecosystem.

We see consolidation of growth around the major cloud platforms as a great development for best in class service providers, since it affords the opportunity to elevate customer discussions around higher value activities. When Clairvest invested in PEER 1 Hosting, we recognized that data center infrastructure was going to be a scale game well beyond our financial means. The leadership team refocused attention to higher end managed services. The best part was watching the customer relationships (and revenues) strengthen over time. One of my favorite data points is that the company doubled in profitability servicing roughly half the customers in place at the start of our investment partnership. We see the same opportunity for service providers to elevate the game today – but this time with a much deeper toolkit than what was available 10 years ago.

You're one of the few private equity firms doing minority investments. Why?

The founders of Clairvest were entrepreneurs and imparted the wisdom on us that if we back the right operating partners, we shouldn't worry about owning a control position. Clairvest is less focused on how much we own and more interested in how much our partners retain in the business. We love having operators that are heavily invested alongside us. Clairvest management and board of directors contribute approximately 30% of every dollar we invest, so we sit at the table as true partners – through good times and bad. Our 30-year track record

“With our reputation and the prospect of working for a best-in-class entrepreneurial organization, we do not have a hard time attracting great talent.”

is very strong and we have had impressive results with the minority approach.

What is the key differentiator between you and your competitors?

With all humility, 70% of what we do is the same as every other private equity firm. We all have capital and business degrees and have done lots of deals. And with all humility, I can say that the companies in which we invest are 70% just like their competitors. But somehow our partners (and as a result, Clairvest) have achieved above average performance. We think our approach to finding companies that are being built for the long haul, backing heavily invested owner operators and focusing on healthy means of growth enable our portfolio companies to outperform the competition.

Are you more operationally oriented, or financially?

Our professional skill set is financial and strategic in nature. When operational help is required, we look to bring on the right full time employees, advisors or in some cases consultants to assist.

How often do you bring in help from the operations side?

It depends on the business and stage of development. The companies we invest in are not billion-dollar organizations with 30-person executive teams, multiple offsite retreats, global summits, etc. We work with bootstrap companies, so if we identify an area that needs attention---whether it’s in sales, finance, or operations—we just have a frank conversation with our partner and say, “This is where we should strengthen things.” I point to other partner CEO’s who have made the change and benefited from it.

How have you built up your stable of operational contacts?

We don't warehouse executives like some private equity firms. Some firms have these operating partners or entrepreneurs in residence that are on the payroll and often looking for their next full time role. With Clairvest, we use our connections to identify people who just came off something else or are looking for their next adventure. With our reputation and the prospect of working for a best-in-class entrepreneurial organization, we do not have a hard time attracting great talent.

What are some interesting aspects of being an international private equity player?

"Apply pressure consistently."

To the extent we can help a US company enter the Canadian market, we certainly use our connections. Digital Media Solutions bought a company with Canadian operations and it has gone very well. We helped facilitate that.

Is there a particular investment that exemplifies the firm's philosophy?

PEER 1 is a great example where Clairvest owned a minority position and we helped the leadership team focus on the highest-value activities. The company invested heavily from cash flow and leveraged the platform with several acquisitions. One was in the UK, which made PEER 1 the clear number two behind Rackspace at the time. Over time, the company transitioned from a "me too" operator to an asset of strategic importance. We were approached by Cogeco Cable in Canada, which was looking for a platform in managed hosting and managed services. PEER 1 was a perfect fit.

What does a traditional exit look like for your investments?

Our time horizon is typically 4-7 years and generally, the sale is to a strategic buyer. We've also had companies go public, but our companies are in the lower end of the mid-market. We have a view that even when we grow our businesses successfully, they're often too small for an IPO. We think IPOs are better for $500 million + enterprises.

What is your process behind acquisitions for your portfolio companies?

We do our own prospecting and work with great folks like ***martin****wolf* to help identify acquisitions that will be a good strategic fit. Clairvest assists with diligence, providing the capital, and negotiating legal documentation as well as helping management plan for post-close integration.

What's a piece of business advice that has stuck with you?

Stolen from the medical community: apply pressure consistently. Our best outcomes are the result of outstanding leaders who know how to apply consistent pressure on their organizations to innovate, operate, motivate and grow. Just three words. So much for my career as a business author.