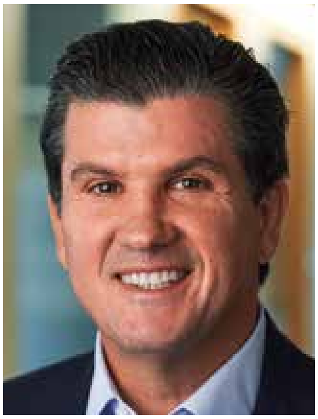
KEYNOTE INTERVIEW

Growth equity still has room to grow



Technology, the rise of entrepreneurs, and globalised business models have transformed the growth equity space in recent years, say Bill Ford and Graves Tompkins of General Atlantic

Growth equity has attracted significant attention recently. It is the fastest expanding area of private capital by some margin, according to Morgan Stanley, with a compound annual growth rate of 21 percent since 2012, versus 10 percent for private equity and 16 percent for venture capital.

That doesn't mean all growth equity investors are created equal. While there seem to be plenty of newcomers, a small handful of firms have been investing in this space for decades.

We caught up with General Atlantic chairman and CEO Bill Ford and global head of capital partnering Graves Tompkins to discuss what has driven such remarkable change in this part of the PE universe, why a long-term perspective is vital in growth equity, how to remain resilient and disciplined in today's investing climate, and how the entrepreneurs of today differ from their predecessors.

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Q As someone who's been an investor in growth equity for more than three decades, you've seen a lot of change in this space. What do you see as the most significant developments?

Bill Ford: So much has changed since I started investing, but I'd say there are three main shifts. The first is that the industry has globalised. When I started out, growth equity was US-centric. That's certainly not the case today.

The industry has expanded worldwide as entrepreneurship has gone global – we now see exciting entrepreneurial opportunities across Europe, China, Latin America and so on, and we've just opened up an Israel office. I've seen the development of the industry and entrepreneurial activity grow from bases in Silicon Valley and Boston to spreading globally – that opens up a rich set of opportunities.

Naturally, today's global uncertainty and geopolitical tensions present some risks, but investors with a strong track record of managing volatility across multiple cycles are still able to locate resilient value.

The second shift is the development of technology. Thirty years ago, technology was an industry vertical, and we'd make investments related to the technology sector; today, the picture is totally different, as the whole economy is digitising at pace. This is disrupting business models and creating a vast, horizontal opportunity set. This goes way beyond software business and extends to social media, where users can be connected and engaged worldwide. Only 25 years ago, the idea of accessing a global market in this way was unthinkable.

And finally, we've seen the natural evolution of the private equity industry. Back when I started, there was a clear divide between large-cap, leveraged buyouts of industrial and often cyclical businesses at one end, while at the other was venture capital, which focused on early-stage companies. There was nothing in between.

General Atlantic really pioneered the concept of growth investing – taking minority stakes in high-growth companies that had achieved product-market fit, but that needed both financial support and strategic guidance to successfully scale their businesses. Now, decades later, growth equity is a distinct asset class – and one that's in high demand among investors looking for strong risk-adjusted returns.

Q How do these developments feed into GA's approach to the market?

BF: We have a thematic focus on sectors that are poised for long-term growth – technology, consumer, financial services, healthcare, life sciences and climate tech – and we commit to partnering long term with tech-enabled, high-growth companies as they transform these sectors globally. We believe that our diversified portfolio and expertise as a value-add partner to entrepreneurs ensures we are well positioned for any downturns. Our ability to see through valuation cycles is also crucial to our approach, particularly in the tech sector, as it enables us to identify true long-term potential.

We have long taken a global approach – our first investment outside the US was in 1989, and we invest around half the $8 billion to $9 billion we deploy annually in markets outside the US. That means we have to have a

Q Where are you seeing the most exciting and investable innovation today?

Bill Ford: There is so much innovation today that it's difficult to know where to start to answer this question. Even with the level of global uncertainty we're seeing now, entrepreneurs are still finding creative solutions to today's challenges. However, I'd start with Web3, which deploys blockchain to decentralise and tokenise the internet. With enhanced security and scalability, Web3 has the potential to have a profound impact on the consumer and technology markets. Similarly, cryptocurrencies will disrupt consumer, healthcare and financial services markets. The adoption of Web3 will be of a similar magnitude to the move from ethernet to internet.

The metaverse will also have a significant impact, particularly in consumer markets, where AI-related technologies will be deployed. In healthcare and education, too, we see big shifts. These markets have been resistant to innovation because they are complex, but the pandemic has accelerated disruption in this space, and we're now seeing significant opportunity in areas such as online education and telemedicine – and these are areas that can reach customers globally. Online education platform BYJU, for example, offers self-learning and one-to-one tuition across a range of markets, including India, the UK, Canada and Brazil.

And we're also looking at commercial space travel – this is very exciting. We identified this theme two years ago and have since invested in Sierra Space, which has developed a space plane that can help space agencies and companies service satellites. This company is helping to commercialise the space market and, since investing, other space opportunities have approached us.

Overall, we like to look around corners to see where the next innovations are coming from – and there's plenty happening right now. There will be changes over the coming years that we can't articulate today as innovation continues to accelerate ever more.

strong geographic presence, with local teams really understanding the local environment and nuances.

Graves Tompkins: We take these two together – sector and geographic expertise – to build a strong origination capability. Unlike buyout opportunities, which are frequently intermediated, we as a growth investor need to have active outbound dealflow sourcing, getting to know entrepreneurs and identifying strong trends to invest around. We added over 10,000 companies to our database last year; we looked at around 1,000 of these and we invested in 25. That's a big funnel.

Q You mentioned the long-term investment approach. Why is that so important to GA?

GT: Our capital base is long-term orientated. That is partly a reflection of our heritage: we started out as a family office and our early capital raising was supported by families and philanthropic organisations, which encouraged us to take the long-term view from the firm's early days.

In today's inflationary environment, a forward-looking approach becomes even more important. We identify market leaders who we believe have pricing power, are resilient to inflation and stand to benefit from industry consolidation. We have also historically used very limited financial leverage – most of our companies have no debt or net cash – which insulates our strategy and portfolio in a rising rate environment. Our investment returns are driven by company growth, and that growth is driven by long-term secular trends, not by economic cycles.

It's an appropriate philosophy for us because growth equity businesses need investors with long time horizons. It takes a long time to grow and shape a business at this stage. Entrepreneurs are looking for partners that are there at different stages of development and that are not going to be forced to make a premature exit, with timing dictated by a fund's lifespan.

> *"Today's entrepreneurs are highly mission driven, and that gives me a lot of confidence in the future"*
>
> **BILL FORD**

Equally, if we have found a great business to back, why would we sell it early when we can compound the capital invested for a longer period? Our more flexible and durable capital base allows us to capture a company's long-term growth potential and optimise investment performance for both IRR and MOIC. We have reinforced this patient approach even more through the creation of continuation funds for some of our most attractive investments. All of this allows us to meet companies where they are on their stage of development and partner with them across the life cycle, from earlier stage through to IPO and beyond.

Q Can you tell us more about how you view the globalisation of entrepreneurship?

BF: I can't overstate how powerful this is. We are seeing young people internationally go to, say, Stanford, and then they are taking ideas and business models back home to their domestic markets. This is supported by the development of venture capital markets around the world. Being an entrepreneur is now seen as a viable and attractive career path in a way it didn't used to be, and so we now have a situation where we have capital and talent coming together in Latin America, the Philippines, Southeast Asia – everywhere.

Our investment in Clip is a great example of this. It's a payment processor for mom-and-pop shops in Mexico that previously only accepted cash. By helping to democratise payments, Clip has become Mexico's first fintech unicorn. We were able to source this opportunity and team up with a local entrepreneur because we have had a team in Mexico for a decade and because we have built payments businesses globally.

Q Can you tell us about GA's BeyondNetZero initiative?

GT: We established this last year: it's a new venture, led by chairman Lord John Browne and CEO Lance Uggla, that targets high-quality, high-growth companies that are developing innovative climate solutions. BeyondNetZero's strategy focuses on the themes of decarbonisation, energy efficiency, resource conservation and emissions management – all areas critical to mitigating and slowing climate change. We've already made four investments, including in RoadRunner Recycling, which uses technology to predict types and volumes of business waste to facilitate and optimise recycling processes.

BF: This initiative really demonstrates one of the points about today's entrepreneurship that excites me: that it is a force for good in the world. Entrepreneurial spirit and technology are increasingly being directed at helping to solve some of the world's biggest issues, including social ones. For example, the technology revolution is really supporting a drive to inclusion, whether that means offering financial products that weren't available to people before, or access to education or healthcare.

Today's entrepreneurs are highly mission driven, and that gives me a lot of confidence in the future. Despite the current challenging macro environment, there is opportunity for those who know where to look for it. ■