Playing follow the leader at GTCR

By **Jaewon Kang** Updated 01:00 PM, Jan-08-2016 ET

When **GTCR LLC** offloaded home security services provider **Protection 1 Inc.** to **Apollo Global Management LLC** in July after a five-year investment, the sale was the third exit that the portfolio company's CEO, Tim Whall, had gone through with the Chicago private equity firm, which calls its system of reassigning its top corporate managers the Leaders Strategy.

Before teaming up with GTCR in 2010 for the Protection 1 acquisition, Whall had already helmed two other portfolio companies for the financial sponsor: **Cambridge Protection Industries LLC** and **HSM Electronic Protection Services Inc.**

So when GTCR wanted to continue buying in the security industry, Whall helped identify Protection 1.

"We specifically joined together to find the right company for our thesis," he said in a phone interview. "We spent 20 months to 22 months finding it."

Since its inception in 1980, GTCR has maintained its position as an active investor by developing a strategy that pivots around discovering executives and then partnering with them to find middle-market companies in the TMT, healthcare and business services sectors and then grow them.

One source who asked not to be named who's familiar with the Leaders Strategy said it's "unusual" among financial sponsors to highlight executives like GTCR does.

"They emphasize it strongly," this person said of the Leaders Strategy. "Some other firms do it, but it's essential as part of [GTCR's] strategy."

While not every deal that GTCR makes is done through the Leaders Strategy, the program is fundamental to how the financial sponsor does business.

"The essence of the Leaders Strategy is combining our capital with a CEO's managerial expertise to provide them with an opportunity to acquire a business where they can drive change and transformation," said GTCR's managing director, Craig Bondy, by phone.

Bondy, who joined GTCR in 2000 after working for Credit Suisse First Boston, explained that the firm essentially bears the economic expense of supporting the relationship with chief executives.

"We're trying to partner with CEOs who want to be full-time operators and have a vision for what they want to build, which is different than trying to have a network of advisers who can help us on due diligence or help us get access using their Rolodex," said Bondy, who serves as co-head of GTCR's TMT with Phil Canfield. "That's not the type of partnership we're looking for."

What makes the Leaders Strategy work isn't just finding executives, but trusting them. Edward Sonnenschein, a partner at Latham & Watkins LLP who has been working closely with GTCR since 2011, observed that the firm not only focuses on recruiting top industry leaders but also cooperating with them fully.

"I always see great teamwork within their deal teams," asserted Sonnenschein, who advised on the Protection 1 sale and GTCR portfolio company Cision Inc.'s acquisition of Gorkana Group Ltd. in 2014. "There's tremendous communications, lots of thoughtful interchange and openness to different perspectives. "The teams themselves work extremely well together."

The relationship between GTCR and the executives has been a key component of the firm's strong performance over the past three decades, according to people familiar with the PE firm.

Take sterilization provider Sterigenics International LLC as an example.

"On the one hand, I have experience in terms of how to transform an organization to create shareholder value, as well as lead a team to produce outsized results," Sterigenics CEO Michael Mulhern said in a phone interview. "On the other hand, GTCR possesses terrific experience in financing companies, completing add-on acquisitions and helping mold and shape the strategic direction of their portfolio companies."

Mulhern, who previously led former portfolio companies American Sanitary Inc. and Fairmount Food Group LLC via Leaders Strategy before heading up Sterigenics, explained that the compability of such skills played an important role in both growing and exiting companies.

"During our quarterly board of directors' meetings, our senior management team will update GTCR on the company's performance and review strategic initiatives," Mulhern related. "On a more informal basis, I will have frequent interactions with the partners at GTCR about specific opportunities, challenges or timely events."

But above all else, GTCR excels at M&A, he said. Sterigenics, for example, successfully completed a cross-border acquisition of Canadian medical supplier Nordion Inc. for $805 million in August 2014, but it wasn't an easy process.

Sterigenics initially offered in March 2014 to pay $11.75 per share for Nordion and was forced to increase its bid that May to $12.25 before having to boost it again to $13 after the target received rival proposals from a mystery bidder.

After enticing Nordion away from the third party, Sterigenics and GTCR had to jump through regulatory hurdles since the Canadian Parliament enacted legislation that placed foreign ownership restrictions on Nordion. Five months after coming to an agreement, Sterigenics closed the transaction.

"They played the lead role in helping our company acquire Nordion," Mulhern said, adding that Sterigenics would not have been able to obtain Nordion if it wasn't for GTCR's expertise. "Given their rich experience in acquiring companies, their knowledge, resources and advice are invaluable."

The firm's M&A acumen was on display just as much with its exit from Sterigenics.

GTCR launched a formal sale process for Sterigenics in December 2014 given inbound interest, a strong M&A market and the investment's nearing maturity, Mulhern explained. So what did GTCR do? With Warburg Pincus LLC, it recapitalized last May. The recap came about four years after GTCR purchased the target for $675 million from its former owner, Silverfleet Capital LLP.

Bondy acknowledged that M&A is something GTCR considers even before making its initial investment, namely, what comes after the financial sponsor adds a company to its portfolio.

"They tend to have experience executing acquisitions and doing integrations, so GTCR is very active in the strategic conversations with these CEOs once we own the platform," he said of the executives with whom the PE firm partners. "Our companies are often very acquisitive."

Public relations and marketing software maker Cision fits such a bill.

In April 2014, GTCR acquired the Swedish company for $127 million via a go-private transaction. Then known as Cision AB, the buyout shop sweetened its bid twice before succeeding.

Just a month later, GTCR shelled out about $447 million to take cloud-based public relations software company, Vocus Inc., private, and then merged it with Cision, whose name was kept.

Cision, now based in Chicago, has been turning to M&A to establish itself as a powerhouse in the PR industry. It has already sealed four acquisitions: social media analytics company Visible Technologies Inc., media information provider Gorkana Group, social media engagement company Viralheat Inc. and most recently, media distribution company PR Newswire Association LLC.

Cision exemplifies GTCR's investment strategy, asserted someone who consults on strategy issues with the firm and its managing directors, Elgin Thompson, managing director at boutique investment bank Digital Capital Advisors LLC.

"Their thesis-and I've always thought it was the right one-is to identify a big theme, diligence that theme, talk to existing industry players, competitors and suppliers to get a sense for sustainability around the thesis," Thompson said. "And that takes years."

After settling on the thesis, the firm ventures out to find an executive with a track record that GTCR believes in, he added.

"They looked across the universe of business communications and saw public relations as an analog market that wasn't taking advantage of technology," Thompson said of the Cision move, explaining that GTCR will likely pursue more bolt-on acquisitions.

A source familiar with the firm, who asked to remain unnamed, explained that GTCR's purchase of Cision and subsequent merger with Vocus was a complex yet creative transaction.

"If they're interested and if there's an angle for them, they're a great buyer," said this person, who characterized GTCR's braintrust as "straight-shooting guys" and "problem solvers."

When it comes to GTCR's acquisitions, though, the Leaders Strategy influences its investments in various ways.

Witness GTCR's transaction with Cole-Parmer Instrument Co. in August 2014, which Bondy, the managing director, said resulted from a "typical Leaders Strategy approach."

The firm acquired specialty laboratory equipment manufacturer Cole-Parmer from Thermo Fisher Scientific Inc. (TMO) by bringing on life science industry veteran Bernd Brust to lead the business.

Bondy said GTCR successfully carved out the division from a larger enterprise by partnering with Brust, who had sector expertise and a unique perspective on how the company could operate as an independent entity.

"We believe that partnerships with our management teams have allowed us to have a differentiated point of view than what other private equity funds may have had," he added.

On the other hand, its partnership with the management team of Adams Outdoor when it came to acquiring outdoor billboard company Fairway Media Group LLC at the start of 2015 was a bit more unconventional. According to Bondy, the partnership with Adams Outdoor enabled GTCR to act both as "a strategic acquirer and a financial buyer" of Fairway.

The application of the Leaders Strategy may have taken turns over the years, but the nature of the tactic-like that of the firm- doesn't appear to have changed all that much.

GTCR started in 1980 as Golder Thoma & Co. until becoming Golder Thoma Cressey Rauner Inc. four years later. By 1998, the shop had split into GTCR Golder Rauner, or GTCR, and Thoma Cressey Equity Partners Inc. Thoma Cressey eventually became software-focused PE fund Thoma Bravo LLC.

Since its inception over 30 years ago, the firm has invested more than $12 billion in more than 200 companies and currently focuses on TMT, healthcare, financial services and business services sectors.

"Broadly speaking, two of the largest areas of economic growth in the U.S. have been technology and healthcare," Bondy said, and that's been reflected in the firm's investing preferences.

He explained that the larger trend of an aging demographic and personalized medicine and drug discovery creating more research-and-development opportunities is now influencing the firm's investment themes in the healthcare sector.

For technology, the pace of innovation has been rapid and continues to accelerate, Bondy asserted. Lenders and financial sponsors have become more comfortable with investing in software companies as the business model has shifted to one based on subscriptions instead of product sales.

Today, the firm is about a year-and-a-half into GTCR Fund XI LP, which was raised and activated in 2014. Its most recent acquisition, the Jan. 6 deal for telecommunications services provider Onvoy LLC for undisclosed terms, is now part of this fund.

"We've managed to find six new platform investments to put into that fund so far," Bondy explained. "We also continue to recruit CEOs and have formed a couple of new management partnerships."

But the bigger story lately has been GTCR's exits. Bondy said 2015 was GTCR's best ever in terms of sale activity, having sold or recapitalized 11 companies.

Some sales were of portfolio companies long in the tooth, like Franklin, Tenn., healthcare facility operator Capella Healthcare Inc., which GTCR launched in 2005 but recently sold to Medical Properties Trust Inc. (MPW) for $900 million.

Others have had shorter investment horizons. In October, for instance, the firm agreed to sell its stake in Townsend

Holdings LLC to NorthStar Asset Management Group Inc. (NSAM) after acquiring the real estate advisory services provider through its Aligned Asset Managers LLC portfolio company in 2011. GTCR also exited another purchase that year, FundTech Corp., which it sold to DH Corp. in April for $950 million (GTCR purchased the financial software provider for $388 million and merged it with BankServ in 2011.)

Bondy said there are two factors GTCR considers when it decides to pursue an exit.

One factor is valuation, Because the firm operates in a select number of domains, Bondy said, it has a "pretty good set of data and experience to know what valuation ranges typically prevail in these markets."

Another factor is timing. Bondy noted that GTCR very much believes in its rationale for buying companies and keeps in mind whether it has executed its plan when it comes to a given portfolio company.

Execution was very much a factor when it came to another exit of a 2011 investment by GTCR. The buyout shop last year sold insurance broker AssuredPartners Inc. to fellow PE firm Apax Partners LLP of London, just four years after GTCR partnered with industry veterans Jim Henderson and Tom Rileyto launch **AssuredPartners** in 2011. AssuredPartners pursued four regional transactions in addition to more than 100 tuck-in acquisitions.

"That was a thesis around building out an insurance brokerage business through acquisitions," Bondy reflected.

Henderson, who spent more than two decades at **Brown & Brown Inc.** (BRO) before retiring from the insurance brokerage in 2010, said he decided to launch the company because he felt comfortable with GTCR and the firm's respect and confidence for leaders of its portfolio companies.

"GTCR provides the freedom to let management teams operate with a high degree of autonomy," Henderson elaborated. "They operate functionally as advisers, with smart, resourceful counsel about the direction of the company. They are very committed."

In fact, such dedication to the growth of portfolio companies has also set GTCR apart from its fellow sponsors, according to Digital Capital Advisor's Thompson.

"GTCR is one of those rare birds that are builders as opposed to financial engineers," he said. "They have been doing that since the inception."

One key part of GTCR's strategy is to pinpoint an investment philosophy for sectors it knows well while simultaneously recruiting executives in those industries.

"Most of the private equity firms we see right now-their starting point is the company," Bondy revealed. "They orient their sourcing around identifying companies,"

GTCR has remained loyal to the middle market, and that's been a major secret to its success.

"If the companies are too small, they may not have established enough customer presence in their market or have enough infrastructure to serve as a platform," he explained. "And if the company is too big, it may be more difficult for our management teams to drive change and make the impact that they want. We think that's the space our CEO partners can come and make the biggest impact on the company." n