NEW YORK

Growth Equity Investing

An Interview with William E. Ford,
Chief Executive Officer, General Atlantic

EDITORS' NOTE *Bill Ford joined General Atlantic in 1991 and assumed his current post as CEO in 2007. He currently serves on the boards of several General Atlantic portfolio companies including Tory Burch, Oak Hill Advisors, and Markit. Ford was formerly a director of prior General Atlantic portfolio companies including First Republic Bank, NYSE Euronext, e*Trade, and Zagat Survey. He is Chairman of the firm's Executive Committee and is a member of its Investment, Portfolio, and Capital Committees. He serves as Vice Chairman of the Board of Advisors of the Stanford Graduate School of Business, as Vice Chairman of the Rockefeller University, and is a member of the Board of Trustees of several organizations including The Memorial Sloan Kettering Cancer Center, Lincoln Center, and The New York Genome Center. Prior to joining General Atlantic, Ford worked at Morgan Stanley & Co. as an investment banker. He received his B.A. in Economics from Amherst College and an M.B.A. from the Stanford Graduate School of Business.*

William E. Ford

COMPANY BRIEF *General Atlantic (generalatlantic.com) is a leading global growth equity firm providing capital and strategic support for growth companies. Established in 1980, General Atlantic combines a collaborative global approach, sector-specific expertise, a long-term investment horizon, and a deep understanding of growth drivers to partner with great entrepreneurs and management teams to build exceptional businesses worldwide. General Atlantic has more than 100 investment professionals based in New York, Amsterdam, Beijing, Greenwich, Hong Kong, London, Mexico City, Mumbai, Munich, Palo Alto, São Paulo, and Singapore.*

What is the heritage of General Atlantic?

The firm was founded in 1980 as a family office for a very successful entrepreneur, Chuck Feeney, one of the founders of Duty Free Shoppers Group. Aside from being a revolutionary retail entrepreneur, Chuck was one of the early proponents of "giving while living" and aimed to give his entire fortune away during his lifetime to support a number of philanthropic causes he was passionate about. In order to grow his capital available for giving, he partnered with us to invest in other promising entrepreneurs. So General Atlantic's heritage has always been about backing entrepreneurs and innovators who are trying to build new businesses and who often pioneer new industries.

Another hallmark of our firm has been a commitment to working with wealthy families, which has been the backbone of our capital base from the beginning. We were fortunate to have Mr. Feeney and his foundation as our initial and sole capital partner from 1980 to 1991 but, as he began giving away his capital, he encouraged us to take on other clients – in most cases, other philanthropically minded families.

Today, we have about 60 capital partners, half of which are wealthy families, with endowments, foundations, and financial institutions comprising the balance. To this day, a common thread through our capital base is a commitment to philanthropy.

"Growth equity" is a core phrase General Atlantic uses. How do you define that?

Growth equity is quite different from other flavors of private equity. In our industry, on one end of the spectrum, there are the global buyout firms that buy a controlling interest in companies by using leverage and they typically focus on operational efficiency. On the other end of the spectrum are venture capital firms that invest in pre-revenue or early-stage companies with less proven business models. Growth equity falls somewhere in between these two.

Where General Atlantic fits within growth equity is in backing companies that are in a distinct portion of their growth curve. We typically purchase a minority stake of 10 to 40 percent of the company and become an active, value-added partner. We try to drive returns through company and market growth as opposed to using leverage, financial engineering, or operational improvement. We're trying to find companies that can grow 20 to 25 percent or more organically or inorganically each year.

To us, investing is about partnering with entrepreneurs, family business owners, and other types of businesses as an active shareholder by helping them grow over a five- to seven-year period, and then seeking an IPO or M&A exit.

What are some of the qualities you are looking for in prospective investments?

As a minority investor, what we're looking for is an alignment of interests with the people leading the company and other shareholders. We manage risk not by being in control but by having a shared vision of the company's future. Without a shared vision, it's very hard to have a successful partnership.

Beyond that, the company's business model, management, and market are the three most important criteria. Does the company possess an innovative or disruptive business model that is unique, with barriers to entry to allow for strong growth? What is our assessment of the quality of the management team and our ability to work as good partners? And finally, what is the size and growth potential of the market? We're not in the distressed or turnaround business. We're trying to back leaders we believe in. We're also trying to identify an attractive business model, with elements including recurring revenues, high gross margins, and low capital intensity.

How hard are these innovative companies to find today?

They're hard to find and oftentimes expensive because there is a lot of capital and people seeking these opportunities. However, today there are a number of forces coming together in a unique way that is resulting in an incredible level of innovation, disruption, and entrepreneurship.

One of these is the transformational power of mobile technology, a trend that is fueling a number of exciting investment opportunities by enabling so many new consumers around the world to have access to the Internet.

Another impactful trend is "big data." The fact that we can capture data, build algorithms, and immediately know so much about consumer behavior is allowing for a very fast pace of innovation.

Finally, another trend is the growth of cloud-based services, which has greatly decreased the cost of starting and scaling new businesses today. These are three important trends we are closely tracking and they are generating a number of attractive new investment opportunities.

Has true recovery taken place since the financial crisis?

This is clearly a sub-par recovery, in my view. It has also required tremendous liquidity to drive the level of recovery we had.

There are forces conspiring against economic growth in the U.S. – one is outsourcing and another is technology, which, in some ways, is very deflationary, and negatively impacts GDP growth.

That said, there are still major pockets of innovation in the U.S. that we are excited about. We're producing world-leading tech-enabled companies at a very rapid rate, which are in turn creating new industries and jobs from scratch.

Another area I'm bullish on is life sciences. The U.S. is the world leader in life sciences technology. In Cambridge, New York, San Francisco, and around the country, there is significant innovation happening in this area, which is leading to much-needed new therapies and new ways to treat disease. ●