

MARTIN HALUSA of APAX PARTNERS speaks firm, how to pay more for big companies and the important

INTERVIEW BY ROSS BUTLER

The past year has been a time of considerable change at Apax Partners, with the departure this summer of Sir Ronald Cohen, your accession, a large fundraising and a sizeable merger with a US-based buy-out house. How has the underlying business handled the transition?

There are always changes to get used to after a founder, who has run a firm for 30 years, steps down and a new generation comes in. However, much of the transition occurred before I was elected chief executive. Over the past five years, the leaders of nearly all our industry groups have had a generational switch, so electing me chief executive was the final stage of the firm's management succession. Most of the management team had already been at the firm a long time. For example, I've been here 15 years. The changes at Apax have been organic, rather than revolutionary.

But there must have been some distraction to your core business of investing during the various changes...

The last 12 months was a record year for us. We invested €1.5bn and realised €1.3bn. This year, we have smashed that record, with slightly under €1bn in committed capital in the first five months of this year alone. This means we have already invested about 15 per cent of our sixth fund, which is effectively closed at over €4bn. We also expect this will be a bumper year for realisations.

There was much negative publicity behind highly-priced deals such as World Directories, which was said to be driven by debt supply. What is your angle with that deal, for instance?

Without doubt, deals today are being driven by debt markets, and when that slows prices will come down. However, what will remain the same is the competitiveness of the industry. Whatever the economic context at any point in time, public auctions will lead to the highest prices. The trick is to either avoid auctions, which we did with our take-private of media group HIT Entertainment, or to have an angle. Such was the case in our buy-out of Greek wire-



“We paid a very high price, but we had identified the very best buy-in management”

less company TIM Hellas, and Bezeq, an Israeli telecoms group, where we were the only international financial investor to show up with a combination of Israeli, buy-out and telecom experience.

In the case of World Directories, we had a fantastic deal that had identified probably one of the best yellow pages buy-in management teams in the world, from Australia. We convinced Andrew Day, now World Directories' chief executive, to come

over here and replicate his success. We are confident it will be a good deal. Sometimes other people have angles and so we don't go there. Most private equity houses bid off the existing management's plans, so if you have an idea why you can do better than the incumbent management, you can pay more and still deliver a spectacular return.

Apax's US business recently merged with a US buy-out house, Saunders Karp &

Megrue. Given the relative maturity of the US market, it seems a strange choice for expansion.

First of all, SKM is a stellar performer. But beyond that, we have expected for some time that the private equity industry would eventually expand into a global one and polarise, leaving a few global players and many smaller niche investors. We have always been in the US through our affiliation with Patricof & Co, which then came under the global Apax umbrella.

However, through the natural evolution of Apax's businesses either side of the Atlantic, the pure venture capital business in Europe grew into a buy-out and venture business, where buy-outs grew much faster, resulting in an 80/20 split. In the US, buy-outs grew less quickly, resulting in a 50/50 split between venture and buy-outs. We had wanted to strengthen our US buy-out business for some time so the balance would be closer to that in Europe. We were initially looking for individuals to build the business up when we ran into John Megrue, who learnt his trade at Apax. John said he wouldn't come as an individual, but would bring his Partner, Allen Karp and their whole firm. As a result, we now have an equal deal execution capacity in the US and Europe.

What is the practical benefit of this thirst for globalisation?

If you look at the industries we specialise in – telecoms, IT, media, retail and consumer goods, financial and business services and healthcare – they are all global industries.

Retail isn't.

No, but consumer goods is. Look at Calvin Klein, a worldwide business, or the directories group Yell, which we helped turn into a global business. Add to these the foreign exchange business Travelex, Hit Entertainment, along with businesses such as Inmarsat and Intelsat – these are all global businesses.

As a result, we look at our own portfolio companies in the same way, asking ourselves in every board meeting, “Are

about the recent changes at the office of venturing



CARL FOX

there acquisitions abroad? Can we help it expand in the US?” One of our competitive advantages is to be able to add value in that way.

There isn't a single industry group that doesn't have several transatlantic deals running at any one time.

Back in March you told *Real Deals* that Apax Partners was considering opening an Asian support office. Is this a precursor to raising an Asian fund?

The purpose of that office is primarily to support portfolio companies. The value added and ability to make money has shifted from doing a clever transaction processing or arbitraging the public and

private market to working with the company post transaction. One way to do that is helping the company in the global marketplace. Asia is an issue today for many businesses. There are few board meetings that don't discuss Asia. So to help develop that value, we are opening an office in Hong Kong, which will be headed up by a senior partner.

Given Apax's global aspirations, does it make sense to have separate regional funds, or to take a more holistic approach, as favoured by global buy-out houses such as Kohlberg Kravis Roberts or The Blackstone Group.

Most of our global peers raise separate

European funds, and some raise separate sector funds. It depends on what investors want. Some investors would prefer a global fund, but many prefer our separate US and European approach because they have their own view on their geographic allocation. Either way, I have no doubt that the share of money going into the funds managed by global investors will increase as a proportion of all funds over the next few years.

Apax is unusual in its focus on both venture capital and buy-out investing. With so much money to spend, does it still make sense investing in typically small venture deals?

When Apax started, the traditional way to break down the market was by deal size because the skills needed to do large deals were different from doing small deals. We thought that was pretty irrelevant and that the way to segment the business was by industry group, and the core skill was each investment professional's understanding and knowledge of that industry. So once an investor becomes a telecom expert they will know about the driving trends of that market, the new technologies that are emerging, who the incumbents are.

When they have industry and operating experience, it doesn't matter whether they are doing a buy-out, a growth capital deal or a venture capital deal. Admittedly

a very early venture deal is a different animal. But once a company has revenues and customers, it is the same skill set that can be applied, which is why we are focused on late venture and growth investments. We look at pre-profit companies we think we can help grow, but are less likely to look at a company before it has revenues.

But is there not the danger that smaller VC deals become irrelevant because they will have an almost insignificant impact on your fund and, therefore, remuneration?

Firstly, we define venture as pre-profit but not pre-revenue. And our ideal first investment amount is between €10m and €50m. It isn't a danger because in order to be a credible industry expert, you have to play at the venture end of the business. This is particularly the case if you are investing in technology-driven industries. So for example, if you buy a telecoms company in Israel and you are not aware of what is happening in VoIP or in wireless data, you are ignoring one of the main risks that is being imposed onto your current cash flow. You have to be at the venture capital stages to be able to do a large deal because that is where a lot of the industry knowledge comes from.

And secondly, you would expect much higher multiples to be achieved from the late venture and growth segments, so such deals can make a difference to the fund.

What do you believe is the scope for technology buy-outs?

Technology buy-outs require deep industry knowledge in addition to buy-out skills, because technology changes much faster, with new disruptive technologies coming in, and markets that depend upon them change much faster. There are very few players like Apax that combine technology, financial skills, significant scale and geographic reach.

This focus also provides a further way to avoid overpaying at auctions. For example, in our buy-out of Tim Hellas,



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there was a need for buy-out skills and deep industry skills. The seller was convinced there was nobody around more suited to grasp these complex assets and understand them.

With the buy-out of Israeli telecom company Bezeq, there was an even broader requirement, because you had to be an investor in buy-outs, you had to feel comfortable investing in Israel and you had to have an understanding of the technology markets. If you put all these together, you see why none of the other big players turned up to auction. So as auctions become increasingly competitive, we spend more time thinking about how we can approach these auctions to add value.

What is your perception of how private equity is presented to the general public by the media.

Are you referring to the “locusts” comment [in Germany] by any chance? It's a good case in point. I think the industry as

a whole is not terribly good at communicating the role that it plays in building companies, contributing to economic growth and creating jobs.

Private equity has become one of the main sources of transactions in the corporate world in less than a decade. And yet it is important to remember that our investors are not some rich billionaires getting richer. The money mostly comes from pension funds.

What do you consider as your greatest challenge over the next year?

We will continue to focus on our industry groups. Creating transatlantic opportunities will also be a big focus for us. And going back to your last point, it is a good time to do more to help the public understand the contribution the industry makes to the economy in general.

I am bullish about the future of the private equity industry. If you look at technology in Europe, the last few years

have been difficult. But as Sir Ronald Cohen says “don't confuse a cycle with a trend”.

As a trend, technology is having a huge and increasing role in our lives and we are seeing an increase in the number of technology-based late-venture and growth companies that are creating huge value. So I am very bullish about that and we will be sticking with our later-venture technology growth business, because of that conviction, even in a market many of our peers have deserted.

On the buy-out side of the business, the Continent is still catching up to the level of activity in the US and UK. Interest for take-privates and spin-offs from larger corporates has a long way to go.

MARTIN HALUSA is a partner and chief executive of Apax Partners, a position he had held since January 2004. Halusa joined the firm in 1990 as managing director and head of the German office. He focuses on the telecommunications services sector. He began his career at the Boston Consulting Group in Germany before joining Daniel Swarovski Corporation.

For more information visit www.apax.com

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