

# From great to excellent

Colm Lanigan discusses his approach to private equity: invest in great companies, align with management early and use multiple levers to unlock growth.

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**Colm Lanigan**

Global Head of LTPC

## A flexible, partnership approach

Colm Lanigan has seen private equity from every angle. Over the course of his three-decade career, he's been a banker, lawyer, investor and business operator. Colm reflects on his time as a CEO as especially influential on his approach to investing.

"It highlighted the need to design a system that can ensure alignment between investors and management, while also providing incentives for growth and value creation along the way," he says.

Today, a holistic vision of partnership with an emphasis on growth informs the way Colm's team works with portfolio company management teams - from early in the sourcing process and all the way through to exit.

Colm discussed this approach - and its benefits - in a recent conversation.

**“ Our approach to working with management teams is based on partnership, not command and control.”**

# Question

## How have your diverse experiences shaped your investment approach?

The value we provide as investors goes beyond capital – it's driven by strong alignment with management.

# Answer

My experience as both a limited partner and an operator has led me to believe that the most effective way to build successful companies is through a focus on return on invested capital and growth.

That requires alignment, which starts very early in the diligence process by looking at the five-to-ten-year plan that the management team wants to execute on.

Having been a CEO myself, I understand that at times it can be a lonely job because you can't always share the challenges you are facing with your team. One of the most valuable resources for a CEO is a partner who can support them over the long term.

Management teams want partners who can provide the necessary resources to build the business and help think through challenges. Our ability to call on the resources of the entire firm makes our support especially powerful. We are laser-focused on executing value-creation plans, working closely with management to drive operational improvements and strategic growth initiatives. It's a partnership, rather than a command-and-control approach – management teams don't want you running the business.

**ROIC**

**+**

**Growth**

**+**

**Balance Sheet**

## What makes a good investment?

We focus on industry leaders at inflection points where we can help accelerate growth.

When people think of private equity, they tend to think of investors coming into struggling companies and restructuring them. Our approach is different. We are looking for companies that have consistently demonstrated strong earnings and are led by industry-defining CEOs with proven track records of execution. Our approach involves identifying growth opportunities that others might overlook and focusing our value creation plans on maximizing high-ROIC opportunities. In my experience, the majority of returns in private equity come from growth.

Our focus is on driving returns by building enduring companies through strong EBITDA growth, both organic and inorganic, and optimizing the balance sheets of our portfolio companies. This strategy positions our companies to become even greater leaders in their respective industries.

It all starts with sourcing. We're very clear on what we want in a company and what we look for in management teams. We focus on building partnerships with management very early and developing a clear growth strategy that everyone supports. Then we compete hard for the deals we want to win while focusing on valuation.

# Question

## How does a company's balance sheet factor in?

Companies with a strong balance sheet and moderate leverage levels tend to be more nimble and strategic in reacting to market conditions.

# Answer

Our approach to company financials is designed to give management teams the opportunity to think strategically about their long-term growth.

There's a generation of investors that have not lived through an entire investment cycle. I was running a business during the Global Financial Crisis. There were two things that were very important during this time: the ability to be nimble and having the right capital structure. We would not have survived if we'd had too much leverage.

That lesson runs through my approach to investing today. A company's balance sheet should be an asset - not a liability - so that management's growth and operating plans are not constrained by interest coverage concerns or tight cashflow situations. And that's something we stress before and after we purchase a company.

In the past decade, borrowing at low interest rates with low equity contributions could deliver returns. Today, investors must create value through other means, and the market is revealing who can genuinely do that.

**“ We want the balance sheet to be an asset, not a liability.”**

## What investment opportunities are you excited about?

In addition to healthcare and technology we see exciting opportunities across consumer and financial services, particularly across family-owned or founder led businesses.

Our partners' experience across various asset classes and industries helps us to identify relative value.

While we have been interested in the tech sector, we haven't fully committed due to valuation concerns on a relative value basis, which proved to be a prudent decision in the early 2020s. Now, we've seen both healthcare and technology show significant ROIC and growth compared to the broader private equity market. Opportunities in these sectors are well known and tend to be very competitive. This shows up in how we've watched technology companies become more expensive of late. We find certain segments of healthcare have maintained solid growth and stability with more moderate valuation pressure.

We have found many opportunities in less-popular segments, like consumer goods. These are situations where we have historically added real value and represent some of our best outcomes. The financial services sector, which had been less attractive during periods of very low interest rates, is now presenting numerous opportunities. With BlackRock's resources, we have insights into key participants in this sector, which gets us excited.

## Question

## Answer

### How long do you set out to hold onto an investment and how do you approach exits?

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We don't have a one-size-fits-all holding period. We work closely with portfolio companies to align on the time they need to achieve their strategic vision.

The exit market has been slow to recover, and many managers are having to hold companies for longer, requiring some of them to back into an investment rationale for longer holding periods. We've always taken a more flexible approach.

Liquidity has become the buzzword of private equity in this cycle. When it comes to exits, we believe there will always be exit optionality for great companies to come to market and get premium valuations.

Case in point is the investment we made in a perfume company that had been family-owned for many years. We helped it establish a robust global distribution network quickly. Consequently, a strategic buyer approached us three years into our ownership, leading to a favorable exit. That allowed us to provide liquidity to our investors earlier than anticipated.

At the same time, building a portfolio of great companies across industries and vintages offers additional diversification, which can smooth out liquidity challenges in any one part of the market.

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**Without growth, you won't find top quartile returns. We drive ROIC by optimizing a company's pricing, sales, and expenses, then use the cash and strong balance sheet for accretive acquisitions so that our investments become even greater leaders in their industries.”**

### What would you leave us with?

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We're keenly aware that opportunities change as markets go through cycles. Our approach is to build a portfolio that is resilient - one that invests across industries and builds strong alignment between the managers of portfolio companies and investors while allowing companies flexibility on their strategic plans. It's an approach we've refined over the years to invest in great companies and sell excellent ones.

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