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CONVERSATIONS
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Differentiating Tailwind from Fellow GPs

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Larry Sorrel, Tailwind Capital


Hussein Khalifa, MVision

Tailwind Capital's Lawrence Sorrel and MVision Private Equity Advisers' Hussein Khalifa discuss how they work together to play up the firm's unique qualities to LPs, and how being a GP is different today than when Tailwind launched in 2007

Privcap: Today we're talking about the importance of telling your story as a GP. This is, of course, very important on the fundraising trail, but in an increasingly crowded market it's important in general to distinguish your firm from other firms.

Larry, your firm Tailwind recently raised a $1B fund. I'm interested in hearing what the process of raising that fund was like this time out, versus previous fundraising efforts.

Larry Sorrel, Tailwind Capital: First of all, a lot's happened since the last time we did this in 2007. The market has evolved dramatically, as has our fund. The first fundraise was really a new business. We were selling the story and the vision around a few senior guys that had done well on much larger platforms. In the last fundraise we had already been in business for a decade; we had invested $1B; there were 26 companies. So we had a real track record. There was something for the investor to dig into.

What that meant, in practice, was a great deal more in-depth due diligence around how we create value, what the impact of our engagement with the companies was, and what our team members were doing. [There

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were] a lot of reference calls, a lot of follow up work. We're dealing with a world today that is much more sophisticated about private equity. In 2007 a lot of emphasis was on the historical track record. A lot of investors wanted to understand where we fit within their vision of portfolio construction in terms of how we create value.

Hussein, I keep hearing about this more rigorous fundraising world that we're in. As someone who helps a lot of GPs raise capital, can you talk about how this more rigorous approach to determining where value is created manifests itself? How does it come out in the due diligence process?

Hussein Khalifa, MVision: Well it's been a continuously evolving world and we've seen people move from an exclusive focus on the quantitative metrics performance, in its various guises, to much more qualitative assessment of groups. Some of the things that they are looking at include the replicability of a strategy that goes down to an examination of the processes, and the investment processes that are in place at a firm.

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So this more qualitative approach to due diligence, is that accomplished mostly from lots of reference calls?

Khalifa: Reference calls is just one step. People want to spend a lot of time with the general partner and a much deeper cross section of the bench. A few years ago they were happy meeting primarily the managing partners of the firm, the three or four senior people, and they would spend a token amount of time with the next layer down. Now most LPs would really want to understand how the process unfolds from start to finish.

They're meeting the operating partners, the young associates, and vice presidents are doing a lot of the heavy lifting with a group. They are making reference calls to management, to co-investors, as well as other LPs that may have been supporting the general partner in the past.

So it sounds like your entire firm was involved in the fundraising process, down to some of the junior professionals.

Sorrel: That's correct. It typically starts with a fairly lengthy due diligence questionnaire that could be hundreds of pages. It's essentially the detailed discussion of every investment, what went into the thinking and then a fairly in depth assessment of the performance. And then there were meetings with every level of our firm.

Khalifa: We had to be very careful in the process to not create unnecessary work for the LPs, and to make sure that we were addressing the questions that we were asked. A few years ago when investors were becoming much more process-oriented in their investment review, there was a tendency to create more and more information that would go in the data room that would be incorporated into the questionnaires.

And the key was always to figure out what the essential questions that

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need to be addressed were, and to make sure you get those early in the process.

So you need to show that your firm’s track record is replicable, that there’s process in place. You also need to show that your firm has unique characteristics that make it different from other similar firms in the private equity market. How did Tailwind think about what was unique about its strategy and how did you articulate that to potential investors?

Sorrel: We focus on the lower end of the middle market. So most of the businesses we’re buying are $100M to $200M in enterprise value, typically still led by the entrepreneurs who founded it.

We also have a couple sectors we focus on, healthcare, and business and communications services. But those are very broad sectors. A lot of what we do is data analytics, systems integration, those types of engineering skill sets. And then a lot of supply chain logistics and value-added distribution. We mostly impact two areas of growth: internal growth through professionalizing sales and marketing and business development. And then we bring an add-on acquisition competence to businesses that haven’t done that.

What I just described to you is a set of focuses that many firms in the middle market deliver. So the differentiation comes through the relative mix of those types of strategies and in our case our pitch to the entrepreneur is more of a partnership model.

The first rule of thumb is: Don’t break what’s working. The challenge of bringing that to the institutional market is that you need to be able to fit into one of the relevant buckets for investors and they tend not always to line up with the way we think about our own differentiation.

Hussein, in your experience do GP’s sometimes not know what they are good at, or are they not able to articulate what makes them different?

Khalifa: We always say that there are three avatars of a general partner: Who the general partner thinks he is, who the LP community thinks that general partner is, and who he really is. And it’s our job to try to line the three up so that it makes sense for an investment to be made.

But in reality, Tailwind creates value by operating several levers, maybe a dozen or so, so that you can’t come up with a single sentence that allows an LP to say, “Okay, that’s different.” That’s added to everything we have in our portfolio. So you’ll create a simpler marketing message but you’ll still have to spend a lot of time with investors so that they can dig into the portfolio and read through the case studies.

Larry, what was a specific item of due diligence that verified this rigorous inquiry into the presentation of your own skills?

Sorrel: I would say the extent of reference calls that were made—literally dozens of calls, going below the CEOs, but also the other board members, calling other folks that looked at the business, who might have been a buyer or a seller—was very different than my experience in the past. The effort was largely to figure out whether this was an organization that was developing muscle mass around these core functions, as opposed to a couple of people that were pretty good at making investments.

We made the case that our growth-oriented strategy in the 2007, ’08, ’09 period was a big challenge because the quality entrepreneurs that we typically partner with weren’t sellers in an environment like that. As the world got better, we actually saw a much more attractive flow of opportunities.

What we learn as we do this is that at some level we’re all like soup cans in a super market. At first blush we all look like each other, and you just have to get out there and keep telling your story and eventually you resonate with a group of people. But being prepared for the process that does take a while and seasons over time is really what it’s all about. Determination matters. ■